Annual Report 2018

In Tune

DFCC BANK
Keep Growing

DFCC...

A Bank in tune

- with the aspirations of its customers
- with the requirements of its shareholders
- with its responsibility to the environment
- with its obligation to the country

Cover Page manuscript from: Ludwig van Beethoven's Symphony No. 9 in D Minor

Contents

About this Report

This Integrated Annual Report serves as a disclosure of our strategy, governance, performance and prospects and how they help to create sustainable value within our operating environment.

Comprehensive and yet concise

We have adopted an approach to reporting that balances the need to communicate effectively through concise, relevant information (to a large and diverse stakeholder group), while at the same time providing comprehensive compliance-related disclosures (that would interest only a few).

→

A comprehensive report in online HTML format (for a universal audience) *[http://dfcc2018.annualreports.lk]*

→

A concise integrated annual report in print, PDF and CD formats (meets compliance requirements)

→

"Perennial Compendium" (tracks activities throughout the year)

→

A condensed "annual snapshot" in print and PDF formats (communicates across a broad spectrum of current and potential stakeholders)

Reporting period and boundary

DFCC Bank Annual Report for 2018 covers the 12 – month period from 1 January 2018 to 31 December 2018. Our reporting covers DFCC Bank PLC ("DFCC Bank" or "Bank") and the DFCC Bank Group ('Group') comprising the Bank and its subsidiaries, a joint venture company and an associate company. The respective entities are duly identified where applicable.

Compliance

As declared on page 12 the Board of Directors of DFCC Bank, in the spirit of good governance, accepts responsibility for the entirety of this Annual Report 2018.

The information contained herein, as in the past, is in compliance with all applicable laws, regulations, and standards.

In addition, we have drawn on concepts, principles and guidance from the GRI Standards, the International Integrated Reporting Framework and the Smart Integrated Reporting Methodology™ in producing this Report.

Precautionary principle

We take due cognisance of the social and environmental consequences of our actions, both direct and indirect. The latter are more significant and they arise from our lending operations, which are addressed through credit policies, post-disbursement supervision and risk management processes.

About DFCC Bank

Now established as a fully-fledged commercial bank, DFCC Bank was Sri Lanka's pioneer development bank, incorporated in 1955 under an Act of Parliament, and was one of the first development banks to be instituted in Asia.

Soon thereafter, in 1956 DFCC Bank became the first bank to be listed on the Colombo Brokers' Association, the precursor to the Colombo Stock Exchange, and has been a listed company ever since.

As the first development bank in the Nation, DFCC Bank has been the financier behind trailblazing Sri Lankan entrepreneurs, particularly during their risky early stages. The Bank continues to be the preferred lender of choice for "Green" development projects including waste-to-energy, hydro, wind, and solar energy projects, in addition to other large start-up projects. Honed over the course of six decades, the expertise of the Bank's project lending teams is unmatched in the industry. Today, DFCC Bank is at the forefront of pioneering digitally-enabled products and services, offering customers unmatched values and benefits.

Through subsidiaries; DFCC Consulting, Lanka Industrial Estates, Synapsys, and joint venture Acuity Partners, the DFCC Group offers a host of financial solutions that include investment banking, wealth management, information technology, industrial park management, and consultancy.

DFCC Bank is rated AA-(lka) by Fitch Ratings Lanka Limited.

Reach

DFCC Bank delivers its services through 138 branches and service centres island-wide. Customers have access to over 3,800 ATMs across the country via the LankaPay ATM network. Through the adoption of the latest technology, the Bank also offers a range of alternate delivery channels, and continues to expand its branch network.

Refer page 51 for more details on the branch network.

Portfolio

DFCC Bank's primary lines of business include Corporate Banking, Branch and SME Banking, Micro, Small and Medium Enterprise (MSME) Banking, Business Banking, Consumer Banking, Premier Banking, Treasury, and International Banking.

Refer page 49 for more details on the product portfolio.

Scan to view the online version
http://dfcc2018.annualreport.lk

Vision, Mission and Values

Vision

To be the leading financial solutions provider sustainably developing individuals and businesses

Mission

To provide innovative and responsible solutions true to our Values with the expertise of our multidisciplinary team of professionals and synergies of our financial services group

Values

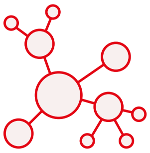
Innovative
Customer centric
Professional
Ethical
Accountable
Team oriented
Socially responsible

Highlights

Group

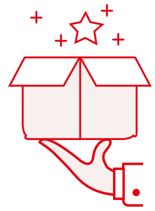
LKR Mn	Based on SLFRS 9 **Year ended 31 December 2018**	Based on LKAS 39 Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015	Year ended 31 March 2015
Operating Results					
Total income	**39,448**	35,987	26,980	17,503	20,094
Profit before tax	**4,676**	5,891	4,674	2,553	5,416
Tax expense	**1,606**	1,458	1,205	912	977
Profit attributable to equity holders of the Bank	**3,011**	4,362	3,415	1,592	4,362
Statement of Financial Position					
Assets					
Cash and short-term funds	**17,331**	21,390	13,824	9,870	8,002
Loans to and receivables from banks and other customers	**262,589**	224,660	198,085	164,945	138,887
Other financial assets	**87,681**	80,751	72,584	67,060	58,258
Investments in associate and joint venture	**1,989**	1,684	1,443	1,248	1,188
Other assets	**7,172**	5,983	5,278	3,986	4,275
Total assets	**376,762**	334,468	291,214	247,109	210,610
Liabilities					
Due to depositors	**241,915**	192,920	140,220	110,551	92,712
Due to other borrowers	**82,589**	84,578	97,276	87,381	65,874
Other liabilities	**6,602**	7,568	6,660	5,208	3,761
Total liabilities	**331,106**	285,066	244,156	203,140	162,347
Equity					
Total equity attributable to equity holders of the Bank	**45,398**	49,125	46,850	43,716	47,909
Non-controlling interests	**258**	277	260	253	354
Total equity and liabilities	**376,762**	334,468	291,266	247,109	210,610
Return on equity, %*	**7.70**	12.08	10.3	5.6	14.0
Return on total assets, %*	**0.88**	1.47	1.4	0.8	2.5
Earnings per share, LKR	**11.36**	16.45	12.88	6.01	16.46
Net asset value per share, LKR	**171.25**	185.31	176.73	164.90	180.72
Capital adequacy					
Core capital ratio		–	14.60	15.39	17.71
Total capital ratio		–	17.47	15.32	16.62
Common equity tier I Capital ratio, % (Basel III)	**12.68**	13.09	–	–	–
Tier I capital ratio, % (Basel III)	**12.68**	13.09	–	–	–
Total capital ratio, % (Basel III)	**16.13**	16.53	–	–	–

* *After eliminating fair value reserve.*



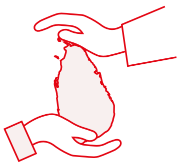
Branch expansion

Conversion of 10 extension offices into fully-fledged branches



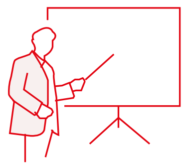
New products and services

Relaunch of Credit Cards
Launch of DFCC iConnect



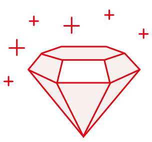
Social responsibility

Successful completion of the second edition of the "*Samata* English programme"



Number of training programmes

2018 – 425
2017 – 404



Brand value

DFCC's brand ranking moved up 37 notches in LMD's list of
Most Respected Companies in Sri Lanka – 2018

The Bank was recognised as one of the
Top 10 Most Admired Companies of Sri Lanka

DFCC Bank's **brand value** recorded the highest increase of 183% in the Brand Finance ranking

DFCC Group Structure

	Subsidiary company		Subsidiary company	
Name	DFCC Consulting (Pvt) Limited		Synapsys Limited	
Address	73/5 Galle Road, Colombo 3		540, Nawala Road, Rajagiriya	
Phone	+94 11 244 2442		+94 11 288 0702	
Email	info@dfccbank.com		contactus@synapsys.sg	
Incorporated	9 September 2004		11 October 2006	
DFCC Bank's interest (%)	100		100	
Principal activity	Consultancy		Information technology services and IT enabled services	
Directors	L H A L Silva – Chairman T W de Silva		L H A L Silva – Chairman D J P Fernandopulle – CEO K P Cooray G S Dewaraja T W de Silva N H T I Perera Ms R A P Withana	
Financial year-end	31 December	31 December	31 December	31 December
Financial year	2018	2017	2018	2017
Profit/(Loss) after tax (LKR Mn) audited	24.8	1.73	9.5	Loss 10.2
Dividend per share (LKR)	3.5	3.50	NIL	NIL
ROE (%)	74.8	8	13.04	N/A

	Subsidiary company		Joint venture		Associate company	
Name	Lanka Industrial Estates Limited		Acuity Partners (Pvt) Limited		National Asset Management Limited	
Address	LINDEL Industrial Estate, Pattiwila Road, Sapugaskanda, Makola		53, Dharmapala Mawatha, Colombo 3		7, Glen Aber Place, Colombo 3	
Phone	+94 11 240 0318, +94 11 240 0319, +94 11 240 0320, +94 11 240 0532		+94 11 220 6206		+94 11 244 5911	
Email	lindel@itmin.net		info@acuity.lk		info@namal.lk	
Incorporated	12 March 1992		7 February 2008		28 September 1990	
DFCC Bank's interest (%)	51.15		50		30	
Principal activity	Operating an industrial estate		Investment banking and related activities such as corporate finance, debt structuring and IPOs		Licensed unit trust and investment management	
Directors	L H A L Silva – Chairman H A Samarakoon – CEO Dr A Saarrankan T W de Silva Dr R M K Ratnayake A D Tudawe		A J Alles – Chairman M R Abeywardena – CEO T W de Silva R Dissanayake D Pallewatte N H T I Perera L H A L Silva		A Lovell – Chairman R T Abeyasinghe – CEO Ms K S Bee W Dambawinne T W de Silva S Madanayake K Nanayakkara M Samaratunga I Wickramasinghe	
Financial year-end	31 March	31 March	31 December	31 December	31 December	31 December
Financial year	2018/19	2017/18	2018	2017	2018	2017
Profit/(Loss) after tax (LKR Mn)	121.2	146	609 (after MI)	351 (after MI)	8.1	31.30
Dividend per share (LKR)	10.0	7	0.44	0.44	10.0	2.5
ROE (%)	22.13	26	15.47	10.44	4.94	14.25

Message from the Chairman

Dear Shareholders,

DFCC Bank has done reasonably well in 2018. During a year in which the country had to contend with drought, floods, and political upheaval, the Board considered it prudent to be somewhat conservative in our outlook and lend judiciously rather than grow aggressively. This judgement has proved to be correct – our NPL ratio is below industry average, our AA- rating has been maintained and our capital ratios are still well above regulatory requirements. We are now well positioned for takeoff in 2019, should conditions improve, and after shareholders help buttress the Bank's foundation (Tier 1 capital) by subscribing to the Rights Issue.

The drop in PAT from 2017 of 37% is inclusive of a fair value provision (net of tax) of LKR 871 Mn and debt repayment levy of LKR 213 Mn in 2018, while PAT in 2017 included an exceptional gain (net of tax) of LKR 917 Mn from a sale of shares. When these factors are taken into account, the current year PAT shows an increase of 10% over last year. (This is explained in more detail in the section on Financial Capital on page 32 Table 1.)

Net interest income has shown growth, fee and commission income has improved and expenses kept to a minimum despite the addition of many new branches with the resultant increase in staff and other expenditure such expansion requires.

In a year during which Basel III and SLFRS 9 was implemented, resulting in additional capital requirements and provisioning, these are no mean achievements.

Current Accounts and Savings Accounts (CASA) has shown little improvement from last year due to difficult market conditions where time deposit rates remain high. The Bank will enhance efforts to grow its CASA in 2019.

During the year, DFCC Bank was privileged to have been selected as one of the country's top 10 most admired companies. This recognition defines how the Bank is perceived among the general population and is a testament to the care and service afforded by our people to our customers and all who come into contact with the Bank.

In line with the opportunity afforded by the SLFRS 9 Accounting Standard to review the objectives of the business model in managing the investment portfolio, a decision was taken to retain a portion of the Commercial Bank of Ceylon (CBC) PLC investment as "fair value through profit and loss". This decision was critical in view of the fact that in terms of this accounting standard, it had to be taken by 1 January 2018, as no further changes to the classification was possible thereafter. As a result of this decision, the Tier 1 capital of the Bank improved by approximately LKR 4.5 Bn, even though, due to the current depressed stock market, the Bank has recognised a provision for fall in value of LKR 1 Bn in the Income Statement for 2018.

As I said last year, the fundamentals are in place and growth will follow. The rating agencies have retained our rating of AA- despite the Bank having to face headwinds brought about by the implementation of Basel III, adoption of SLFRS 9 and many new requirements of the Central Bank.

Corporate governance has been well established and good governance is now permeating through the Organisation with the Board setting the example. Succession planning has been strengthened, talent identified, and recognised. Dedication, commitment and integrity is rewarded, and team building has been made a priority.

The Directors have approved a first and final dividend of LKR 3.50 per share, which is a payout of 35% of distributable profits. Shareholders will appreciate the need to build up capital while ensuring shareholders get a fair return.

The Board has decided to request shareholders to participate in a 2:5 Rights Issue at LKR 72.00 per share, subject to approval by the Colombo Stock Exchange and the shareholders at an Extraordinary General Meeting. The main objective of this Issue is to augment our Tier 1 Capital. Unlike most of our peers, we are making this call after a period of 12 years, within which period a 1:1 Bonus Issue was made in 2010, the Bank amalgamated with DFCC Vardhana Bank and transformed from a specialised bank into a dynamic, modern, commercial bank, while retaining its pioneering development banking focus. In order to take your Bank to the next level and to be able to continue with our dividend policy, the Board recommends that shareholders subscribe to this Rights Issue. The net asset value per share of your Bank as at 31 December 2018 was LKR 165.40 and shareholders will appreciate that there is real value in subscribing to the Rights Issue at this time, although they may not be able to unlock this value until the share market recovers from its current doldrums.

I must thank the CEO, Mr Lakshman Silva for his untiring efforts to ensure the Bank performed creditably during a challenging year, the DCEO, Mr Thimal Perera, the COO, Mr Achintha Hewanayake and the Management team and staff at all levels who upheld the highest standards of professionalism and service.

DFCC Bank has an engaged, dedicated and committed Board, giving freely of their time and knowledge over and above participation at Board and statutory committee meetings, and I gratefully acknowledge their contributions. I am also grateful for the support of the officials of the Central Bank of Sri Lanka and the Ministry of Finance.

Our loyal customers are the reason for our success, and I am very grateful to them for their continued loyalty. DFCC Bank remains committed to providing a service that exceeds expectation.

Our shareholders are the wind beneath our wings, and we look forward to your continuing support for the Rights Issue. You have our commitment to do everything in our power to ensure that your Bank continues to grow.

C R Jansz

Chairman

18 February 2019

Scan to view the Message from the Chairman
http://dfcc2018.annualreports.lk/cm.html

Chief Executive's Review

That DFCC Bank has existed in the Sri Lankan banking sphere for over 60 years is something borne out of design. With a rich heritage as the pioneer development bank in the country active in commercial banking for over 15 years, DFCC has developed a competitive edge over its peers by being attuned to the needs and wants of the various stakeholders it has engaged with. For over six decades, we have continued to evolve, expand and keep pace with the ever-changing needs of our customers and the Nation, earning a reputation as one of the fastest growing and most admired financial institutions in the country. Embracing the latest technology and wielding the expertise of our multi disciplinary staff, we engage with clients of any size and ventures of any scale.

Our customers expect their Bank to be tuned in to their aspirations. Today's customer expects to be armed with useful facilities and the latest technology right in their pockets. With this in mind, we relaunched our credit cards in March 2018 loaded with technology like Visa payWave contactless technology and introduced a first for Sri Lanka – the 1% cashback on every swipe. Also, our customers, current and potential, want to be closer to us; we therefore continued to expand the branch network in key cities and towns around the country. We converted 10 extension offices into fully-fledged branches and our products and services can now be accessed through over 3,800 ATMs across the island.

For our business customers, the launch of the cutting-edge DFCC iConnect online banking platform brought powerful features such as real-time monitoring of account balances and transactions, and the ability to integrate into a customer's Enterprise Resource Planning (ERP) system. These are the features that enable DFCC to distinguish itself as the preferred banking partner for businesses.

Our shareholders expect their Bank to be in tune with their requirements in terms of preserving the value of their investment. While the reported profit for 2018 reflects a decline, an equitable comparison eliminating the losses and gains on the Bank's shareholding in Commercial Bank of Ceylon and the newly introduced debt repayment levy, reveals a growth of 10% in profit after tax over 2017. At the same time, DFCC recorded a 17% year-on-year growth in the net portfolio and posted a 9% increase in net interest income. This is pursuant to a judicious growth strategy combined with prudence in managing asset and liability pricing. It must be emphasised that our strategy of prudence has been acknowledged by Fitch Ratings, who affirmed the National Long-Term Rating at "AA-(lka)" with a stable outlook. Accordingly, the foundation is in place for sustainable progress at DFCC. Our prudence is also reflected in the management of the lending portfolio. Despite having a few non-performing loans (NPL) in different sectors, which reflected an industry-wide trend consequent to the challenging business environment that prevailed during 2018, the Bank's NPL ratio is better than the industry average. Moreover, our portfolio is not skewed towards any particular sector.

Our drive for sustainable progress isn't limited to shareholder value. DFCC Bank is in tune with its responsibility to the environment, taking the lead in environmental initiatives and continuing to embrace sustainable practices. We play an active role in the Sustainable Banking Initiative (SBI) and employ the Social and Environmental Management System (SEMS) for project financing, ensuring that the projects we support are aligned with environmental and social regulations and standards. We are rapidly migrating to paperless workflows and the reduction of reliance on fossil fuels, and continue to raise awareness through e-waste and plastic recycling campaigns. We also educate our employees on the importance of being environmentally responsible by engaging them through a long-running tree planting campaign.

DFCC Bank is tuned in to its obligation to the Nation, recognising that the well-being of the communities it is a part of, are vital to the well-being of the country. Supporting such communities has always been a core value of the Bank and is a key factor in our drive for sustainable progress. For example, DFCC continues to support the Micro, Small, and Medium Enterprises (MSME) sector, where the majority of the businesses are female-led and conducted in a domestic setting. Lending aside, our "*Samata* English" project was well received in 2017 and this programme was expanded for a second edition in 2018. Together with Gateway Language Centre, 96 students, a majority of whom were from rural areas, completed a three-month course and examination. The top six achievers were offered the opportunity to join our Bank as interns so that they could apply and develop their new skills.

The year 2019 will see us continue with the strategies that we formulated and deployed during 2018. We will be focused on growing Current Accounts and Savings Accounts to contain funding costs. We will drive Corporate and Business Banking, Fee-based activities and non-core businesses to increase avenues of income. We will continue to enhance processes to boost productivity and thereby profitability, while delivering better experiences to customers. As we keep in sight our goal of growing our customer base to five million by 2025, we will proactively monitor and evaluate the outcomes of our strategies on a continuous basis.

We realise that 2019 will be challenging. Taxation has risen with its impact on retained earnings. However, the Bank is amply capital adequate. Our Tier 1 capital adequacy ratio stood at 10.77% while the total capital adequacy ratio was 16.07% against the 7.88 and 11.88% regulatory benchmarks respectively. But to ensure the continued growth of the Bank, we require capital. We therefore invite our Shareholders to participate in a Rights Issue, which is subject to approval at a forthcoming Extraordinary General Meeting. This Issue while strengthening the Bank will deliver increased value to our shareholders.

In conclusion, I express my sincere thanks to our customers for their continued loyalty and patronage; to Chairman Mr Royle Jansz and the Board for their guidance and encouragement, and my colleagues for their tireless effort towards achieving the Bank's goals. My thanks also go out to the officials of the Central Bank of Sri Lanka, the Ministry of Finance and other Government institutions for their cooperation and support. I am especially thankful to our shareholders, business partners, the international financial institutions we work with, our bondholders and debenture holders, and depositors for choosing DFCC Bank and placing their unwavering trust in us as we march onwards into 2019.

L H A L Silva
Chief Executive Officer/Director

18 February 2019

Scan to view the Chief Executive's Review
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Board of Directors

1
C R Jansz
Chairman

2
L H A L Silva
Chief Executive Officer

3
P M B Fernando
Senior Director

4
T Dharmarajah
Director

5
Ms S R Thambiayah
Director

6
K P Cooray
Director

7
Ms V J Senaratne
Director

8
Ms L K A H Fernando
Director

9
J Durairatnam
Director

10
N K G K Nemmawatta
Director

11
Ms A Withana
Secretary to the Board


6
7
8
9
10
2

1 – C R Jansz

Chairman

Appointed to the Board of DFCC Bank PLC in July 2010 and appointed Chairman in March 2014.

Mr Jansz presently serves on the Board of Melstacorp PLC, Distilleries Company of Sri Lanka PLC and other companies in the Melstacorp Group. He is a Director of Lanka Milk Foods (CWE) PLC, Lanka Dairies (Pvt) Limited and other companies in the Lanka Milk Foods Group.

He is a former Chairman of Sri Lanka Shippers' Council and a former member of the National Trade Facilitation Committee of Sri Lanka. He has many years of experience in logistics, and in documentation, insurance, banking and finance, relating to international trade.

Mr Jansz holds a Diploma in Banking and Finance from the London Metropolitan University (formerly London Guildhall University) – UK. He is a Chevening Scholar and a UNESCAP Certified Training Manager on Maritime Transport for Shippers.

2 – L H A L Silva

Chief Executive Officer

Appointed to the Board of DFCC Bank PLC in October 2015 and appointed as the Chief Executive Officer in August 2017.

Mr Silva held the position of Deputy Chief Executive Officer since October 2015. He was the Chief Executive Officer and Executive Director of DFCC Vardhana Bank PLC from January 2010 to September 2015. Mr Silva started his professional career with the Department of Inland Revenue of Sri Lanka and joined the DFCC Banking Group in 1987. He was seconded to the service of DFCC Vardhana Bank in 2003 and functioned as the Chief Operating Officer of DFCC Vardhana Bank until his appointment as the Chief Executive Officer in January 2010. Mr Silva is the Chairman of DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited and Synapsys Limited, subsidiary companies of DFCC Bank PLC, and the Chairman of Lanka Ventures Limited, LVL Energy Fund PLC, as well as Lanka Financial Services Bureau Limited. He is a Director of Acuity Partners (Pvt) Limited, the joint venture company of DFCC Bank PLC. Furthermore, he is a member of the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

Mr Silva holds a BCom (Sp.) from the University of Kelaniya and an MBA from the Postgraduate Institute of Management of the University of Sri Jayewardenepura.

3 – P M B Fernando

Senior Director

Appointed to the Board of DFCC Bank PLC in July 2013.

A former Partner of KPMG Ford, Rhodes, Thornton & Company, Mr Fernando has extensive experience in financial services.

He has functioned as the Group Finance Director of the Confifi Group and Finance Director for the Asia Region at Virtusa (Pvt) Limited. In 2005, he became the Managing Director of Capital Reach Group and was appointed as Director/ Chief Executive Officer of Softlogic Finance PLC, following the consolidation of activities of Capital Reach Group under Softlogic Finance PLC.

At present, he is also a Director of a few companies within the Laugfs Group.

Mr Fernando holds a BSc in Applied Science from the University of Sri Jayewardenepura. He is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants of UK.

4 – T Dharmarajah

Director

Appointed to the Board of DFCC Bank PLC in July 2014.

Mr Dharmarajah is the Senior Partner (Audit & Assurance) of Messrs Amarasekera & Company and serves as a Director of Raigam Wayamba Salterns PLC, Southern Salt Company (Pvt) Limited, Management Applications (Pvt) Limited, DHS Medical Group (Pvt) Limited and Central Engineering Consultancy Bureau.

He is a Member of the Council of University of the Visual and Performing arts and a member of the Standing Committee on Management Studies of University Grant Commission. He was a Director of DFCC Vardhana Bank PLC and a Member of the Board of Management of the Postgraduate Institute of Management. He was also a Member of the Council of The Institute of Chartered Accountants of Sri Lanka.

Mr Dharmarajah holds a BSc in Management (Sp.) from the University of Sri Jayewardenepura and is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka, Association of Accounting Technicians of Sri Lanka, and Institute of Public Finance and Development Accountancy.

5 – Ms S R Thambiayah

Director

Appointed to the Board of DFCC Bank PLC in March 2015.

Ms Thambiayah is the Executive Chairperson of Renuka Hotels PLC and the Joint Managing Director of Renuka City Hotels PLC, of which she was the General Manager from 2001 to 2010, prior to assuming the current position with the Company. She is also a Director of Cargo Boat Development Co. PLC, Crescent Launderers & Dry Cleaners (Pvt) Limited, Renuka Consultants & Services Limited, Renuka Properties Limited, Lancaster Holdings Limited, and Portfolio Management Services (Pvt) Limited.

She was a Director of DFCC Vardhana Bank PLC from September 2012 to February 2015.

Ms Thambiayah holds a BA (Hons.) in Economics from the University of Nottingham, UK and a MMH from Cornell University's School of Hotel Administration, USA.

6 – K P Cooray

Director

Appointed to the Board of DFCC Bank PLC in March 2015.

Mr Cooray presently serves as the Chairman of Hotel Developers Lanka PLC and Associated Newspapers of Ceylon Limited. He has held executive positions in several companies including Ceylinco Group, Richard Pieris Group, and the Maharaja Organisation.

He was instrumental in setting up Rivira Media Corporation (Pvt) Limited under the Richard Pieris Group and served there as founder Director and Chief Executive Officer. The two flagship newspapers launched under his direction, “Rivira” and “The Nation”, continue to be widely read newspapers in Sri Lanka. During his tenure at Maharaja Group, he worked as a consultant, supervising, streamlining, and ensuring executive coordination of news broadcasts by the television and radio stations belonging to the Company.

Mr Cooray holds a BA (Hons.) in Political Science and Law from the University of Middlesex.

7 – Ms V J Senaratne

Director

Appointed to the Board of DFCC Bank PLC in July 2015.

Ms Senaratne presently holds the position of Chief Legal Officer and Company Secretary of Distilleries Company of Sri Lanka PLC and Company Secretary of Periceyl (Pvt) Limited. She is a Director of Paradise Resort Pasikudah (Pvt) Limited and Amethyst Leisure Limited, and an Alternate Director of Melstacorp PLC and Distilleries Company of Sri Lanka PLC.

She has over 40 years of professional experience and is well versed in the fields of litigation, commercial law, conveyancing, and company secretarial practices. She held the position of Company Secretary at Sri Lanka Insurance Corporation PLC from May 2003 to 2009, and served as a Legal Officer at the Central Bank of Sri Lanka.

Ms Senaratne is an Attorney-at-Law and Notary Public, Commissioner of Oaths, having admitted to the Bar on 25 August 1977, and also a Solicitor of England and Wales.

8 – Ms L K A H Fernando

Director

Appointed to the Board of DFCC Bank PLC in November 2017.

Ms Fernando presently serves as the Chief Executive Officer/Executive Director of R I L Property PLC and a Director of Foodbuzz (Pvt) Limited, United Motors Lanka PLC, Unimo Enterprises Limited, Orient Motor Company Limited, and UML Heavy Equipment Limited.

She started her career at Kreston MNS & Co, a correspondent firm of Grant Thornton International – Sri Lanka Division, a firm of Chartered Accountants, and counts over 20 years of professional and commercial experience in the fields of auditing, finance, and management.

Ms Fernando is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a member of the Institute of Certified Management Accountants of Sri Lanka.

9 – J Durairatnam

Director

Appointed to the Board of DFCC Bank PLC in August 2018.

Mr Durairatnam possesses extensive experience in banking having been with Commercial Bank of Ceylon PLC covering a period of 36 years. He served as a Director of Commercial Bank of Ceylon PLC from April 2012 to 16 July 2014 and as the Managing Director/CEO from 17 July 2014 until his retirement on 26 July 2018.

He has served in several other senior management positions at Commercial Bank of Ceylon PLC including as Chief Operating Officer, Deputy General Manager - International, Assistant General Manager - International and Head of Imports. His experience covers all aspects of international trade, off-shore banking, credit and operations.

Presently, he is also a Director of Asian Hotels and Properties PLC, Ceylinco Life Insurance Limited and Assetline Leasing Co Limited. He has held the position of Managing Director of Commercial Development Company PLC and has served as a Director on the Board of Lanka Financial Services Bureau Limited.

Mr Durairatnam holds a BSc from the University of Peradeniya and an Executive Diploma from the University of Colombo.

10 – N K G K Nemmawatta

Director

Appointed to the Board of DFCC Bank PLC in December 2018.

Mr Nemmawatta is presently the Additional Secretary (Development), Ministry of Tourism, Wildlife and Christian Religious Affairs.

He has held several executive positions in the public sector. He has served as Director General – Department of Public Enterprise, Ministry of Finance, Additional Secretary to the Ministry of Higher Education and Highways and the Ministry of Environment. He has also served as Director of Sri Lanka Samurdhi Authority, Sri Lanka Customs and Department of Trade, Tariff and Investment Policy.

Mr Nemmawatta holds a BCom (Sp.) from the University of Colombo. He also holds a Postgraduate Diploma in Devolution and Local Government Studies from the University of Colombo and an MSc in Management from the University of Sri Jayewardenapura. He is also a Licentiate of The Institute of Chartered Accountants of Sri Lanka.

11 – Ms A Withana

Secretary to the Board

Appointed as Secretary to the Board in May 2011.

She is also the Company Secretary of DFCC Bank PLC and a Director of Synapsys Limited. Ms Withana joined the Bank in April 1990 and has functioned as the Chief Financial Officer, Head of Operations, Head of Credit Administration and Head of Accounting and Reporting.

Ms Withana was a Director of DFCC Vardhana Bank PLC from August 2003 to July 2012.

She is a former partner of a firm of Chartered Accountants and counts over 30 years of professional experience in the field of auditing, finance and management.

Ms Withana holds an MBA from the University of Colombo. She is a Fellow of The Institute of Chartered Accountants of Sri Lanka and a Fellow of the Chartered Institute of Management Accountants of UK.

Corporate Management

① **Lakshman Silva**
Chief Executive Officer

② **Thimal Perera**
Deputy Chief Executive Officer

③ **Tyrone de Silva**
Executive Vice President
Strategic Planning and Subsidiaries

④ **Anomie Withana**
Executive Vice President
Company Secretary/
Secretary to the Board

⑤
Bhathiya Alahakoon
Senior Vice President
Branch Banking and SME

⑥
Renuka Amarasinghe
Senior Vice President
Corporate Banking

⑦
Gillian Edwards
Senior Vice President
Consumer Banking

⑧
Ashok Goonesekere
Senior Vice President
Chief Risk Officer

⑨
Achintha Hewanayake
Senior Vice President
Chief Operating Officer

⑩
Kapila Nanayakkara
Senior Vice President
Treasury and
Resource Mobilisation

Management Team

(1) **Chinthika Amarasekara**
Vice President
Chief Financial Officer

(2) **Anton Arumugam**
Vice President
Liabilities and Trade
Business Development

(3) **Gunaratne Bandara**
Vice President
Regional Manager

(10) **Hemanatha Samaranayaka**
Vice President
Head – Business Development

(11) **Priyadarsana Sooriya Bandara**
Vice President
Branch Credit Management

(12) **Kapila Subasinghe**
Vice President
Specialised Project Lending/Head of Consulting

(19) **Terrence Etugala**
Vice President
Branch Manager – Gampaha

(20) **Gaminda Fernando**
Vice President
Services and Procurement

(21) **Jayan Fernando**
Vice President
Risk Policy and Modelling

(29) **Denver Lewis**
Vice President
Payments and Digital Channels

(30) **Sharmila Nugawela**
Vice President
Legal – Business Operations

(31) **Kelum Perera**
Vice President
Acting Regional Manager

(32) **Thejaka Perera**
Vice President
Litigation and Legal Recoveries

(33) **Palanadesan Rajanathan**
Vice President
Corporate Banking

(34) **Nimali Ranaraja**
Vice President
Business Banking

(4) **Pradeepa De Alwis**
Vice President
Regional Manager

(5) **Sonali Jayasinghe**
Vice President
Human Resources

(6) **Charitha Jayawickrama**
Vice President
Internal Audit

(7) **Jayangani Perera**
Vice President
Business Banking

(8) **Prasanna Premaratne**
Vice President Trade Services and International Remittances

(9) **Wajira Punchihewa**
Vice President
Regional Manager

(13) **Pradeep Ariyaratne**
Vice President
Restructuring and Close Monitoring

(14) **Priyadarshi Attanayake**
Vice President
Branch Banking Monitoring and Controls

(15) **Amanthi Balasooriya Dahanayake**
Vice President
Credit Risk Management

(16) **Subhashi Cooray**
Vice President
Credit Administration

(17) **Ravi Dassanayake**
Vice President
Planning and Monitoring

(18) **Ranjith Dissanayake**
Vice President
Branch Manager – Kurunegala

(22) **Chandana Garusinghe**
Vice President
Branch Manager – Matara

(23) **Chaya Gunarathne**
Vice President
Compliance Officer

(24) **Nilmini Gunaratne**
Vice President
Marketing

(25) **Chaminda Gunawardana**
Vice President
Regional Manager

(26) **Candiah Jegarajah**
Vice President
Regional Manager

(27) **Samathri Kariyawasam**
Vice President
General Legal

(28) **Nalin Karunatileka**
Vice President
Project Management and BCP

(35) **Mangala Senaratna**
Vice President
Corporate Banking

(36) **Sajith Silva**
Vice President
Bancassurance

(37) **Duminda Silva**
Vice President
Retail Asset and Liability Sales

(38) **Dushan Weerakoon**
Vice President
PFS Central Processing

(39) **Nishan Weerasooriya**
Vice President
Head – Information Technology

(40) **Chandrin Wimaladharma**
Vice President
Rehabilitation and Recoveries

Our Value Creation Model

The Bank's value creation process is a system for transforming inputs through business activities into outputs, outcomes and impact that aims to fulfill the Bank's vision, mission and values (page 3).

The inputs are both on-balance sheet and off-balance sheet forms of capital (page 29) that are continually transformed by the Bank's activities (Management Discussion and Analysis, page 30). The result arising from our activities lead to outputs (products and services), outcomes (value created by the Bank for itself and for its stakeholders as a consequence of the outputs) and impact. They form a cascade across a short, medium and long term respectively and provide feedback to grow the Bank's stock of capitals.

Underpinning this flow of capitals are, the trends in the operating environment (page 22), sound governance (page 94) and risk management (page 70) practices, stakeholder engagement and expectations (page 26) materiality (page 28), strategic imperatives (page 23) and the ongoing monitoring and evaluation of performance across the Bank.

Vision, Mission and Values

Operating environment

Stakeholders and materiality

Strategy

Inputs

Financial capital
Strong book value of the Bank reflecting profitability and asset quality

Institutional capital
Cutting edge knowledge-based intangibles and tangibles owned and controlled by the Bank

Investor capital
Loyal investor base nurtured and rewarded through sound governance and ethical business practices

Customer capital
Trust and loyalty earned by putting the customer at the heart of all we do

Business partner capital
Strong relationships with multilateral and bilateral institutions, correspondent banks and suppliers, nurtured over the years

Employee capital
A multidisciplinary team of professionals with a passion to serve

Social and environmental capital
Positive contribution towards the community and environment

Activities

Focused on enhancing value propositions for Consumer Banking products and organised various campaigns to drive CASA

Enhanced value propositions for Corporate, Business and Premier Banking, and carried out segmented customer engagement programmes

Focused on new business lines and segments

Continuous performance evaluation

Focused on process innovations

Introduced innovative products and services

Further inculcated DFCC values and increased employee engagement and motivation

Expanded branch network and alternate channels

Stewardship

Monitoring and evaluation

Outputs

Enhanced brand value and received recognition. Detailed in page 44

Expanded branch network through conversion of extension offices

Successfully executed a cross currency SWAP transaction of USD 30 Mn

Implemented a new state-of-the-art Integrated Treasury Management system

Revamped Credit Cards and launched interactive credit card statements in e-form

Launch of the revolutionary DFCC iConnect solution

Introduced new process automation workflows for various internal processes

Conducted 20 *Sahaya Hamuwa* entrepreneur development programmes across the country

Expanded *Samata* English CSR programme to Kandy, Kurunegala and Galle

Held various tree planting campaigns across the country

Increased employee engagement and motivation levels

Outcomes

Value derived by the Bank

Sustainable growth in the financial position

Cost savings

Strong brand value

Customer patronage

A loyal and satisfied team

Value delivered to Stakeholders

Improved systems and processes for better service

Innovative banking services and products for customers

On-time payments for goods and services provided by suppliers

Remuneration, training, development and welfare for employees

Financial inclusion

Financed projects adhering to stipulated environmental standards

Impact

Move the Bank towards becoming the leading financial solutions provider sustainably developing individuals and businesses

Operating Environment

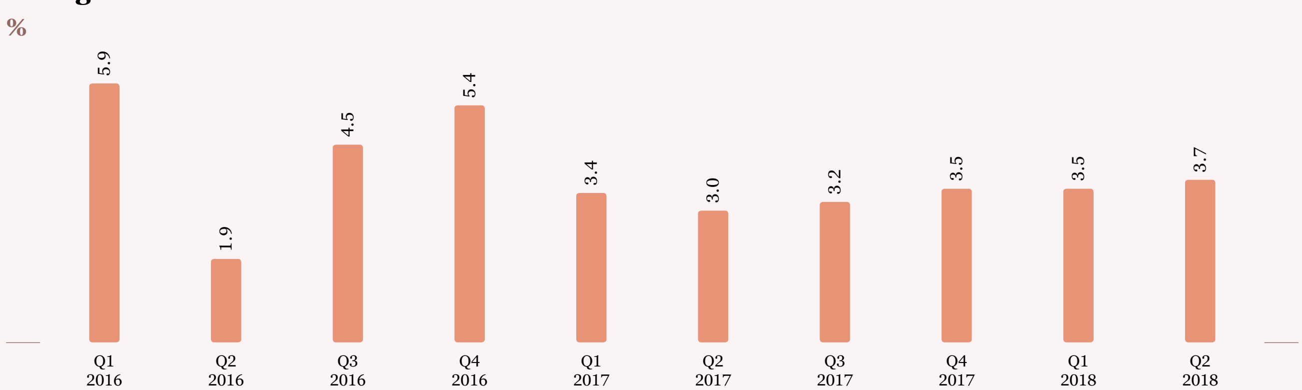
Global growth in 2018 is projected to have hit 3%, the result of trade and manufacturing activity slowing down due to trade tensions between major economies. The impact on investor confidence has led to declines in global equity prices and increased borrowing costs for Emerging Markets and Developing Economies (EMDEs). Fiscal stimulus in the United States and slowing net export activity in the Euro area contributed to advanced economies experiencing a reduction in growth rate from previous years to 2.2%. The strengthening US Dollar, fluctuating energy prices, and weakening commodity prices contributed to increased capital outflows and currency pressures for EMDEs. This led to EMDE growth falling below projections to an estimated 4.2%.

Although South Asia is still the fastest growing region in the world, with an estimated 6.9% economic growth in 2018, Sri Lanka faced challenges that led to the economy falling short of projections. The recovery experienced in the agriculture and services sector was stymied by political instability towards the end of the year, resulting in an estimated growth of 3.9%. The country fell short of the IMF forecast of 4.2% and had one of the lowest growth rates in a region that experienced GDP growth rates around 7%. The three major credit rating agencies downgraded Sri Lanka and the Sri Lankan Rupee depreciated to historic lows during 2018. Sri Lanka remains susceptible to external vulnerabilities due to sizable external debt and current account deficits. The Central Bank of Sri Lanka (CBSL) will focus on debt service payments, which are reported to be around USD 4.2 Bn in 2019. However, 2019 also holds promise for Sri Lanka. A rise by 11 places to 100 of 190 on the World Bank's Ease of Doing Business Index could potentially help to boost foreign investor confidence. Tourism and hospitality could also see a boost as a result of the country being named the number one destination to visit in 2019 by Lonely Planet.

Despite the challenging conditions faced in the domestic market, Sri Lanka's financial sector was bolstered by the favourable asset growth of the banking sector. Alongside improvements in liquidity and capital levels, financial outreach also strengthened during the year despite non-financial sectors experiencing weaker performance. The Central Bank of Sri Lanka (CBSL) continued to tighten monetary policy, issuing directions on BASEL III liquidity standards and leverage ratios, amongst other measures. Directions on financial derivative transactions of licensed banks were also issued to strengthen risk management. Banks were issued guidelines on the adoption of Sri Lanka Financial Reporting Standard 9 as part of the CBSL's initiative to adopt and implement international best practices.

Going into 2019, there will be an increased focus on digital payment mechanisms. The CBSL has focused on strengthening the country's payment and settlement infrastructure in its efforts to develop a national payment and settlement system that can adapted to the country's growing payment needs. The introduction of a national standard for QR code-based payments, "LANKAQR", in 2018, the establishment of an inter-industry working committee to prepare framework for a Blockchain-based Know Your Customer (KYC) solution, and continuing work on a National Card Scheme are the strongest initiatives yet by the CBSL to promote digital payment mechanisms in the country.

GDP growth of Sri Lanka



Source: Central Bank of Sri Lanka

Strategic Direction and Outlook

Short, medium, and long-term goals of the Bank

In 2017, DFCC Bank formulated short, medium, and long-term goals focusing on the period 2018-2020 and beyond, drawing inspiration from the core values of the Bank. Several Objective Oriented Planning Strategy (OOPS) sessions were held during 2017 to devise the key focus areas, which were revisited and revised during the period under review. Key factors taken into consideration included the Bank's rich heritage in development banking, its focus towards the development of entrepreneurs and SMEs, and further establishing and expanding operations as a fully-fledged commercial bank.

The focus for 2018-2020 will be on the following areas:

DFCC Bank will continue to focus on enhancing customer experience through products and services that offer convenience, flexibility, and accessibility. The Bank will achieve this by harnessing the latest technologies to develop innovative products and service delivery processes that will ultimately culminate in increased customer engagement, loyalty, and retention.

As the Bank continues its efforts to broaden its customer base, several strategic initiatives derived through OOPS have been established in different customer segments. These initiatives include user-friendly online banking solutions and actively engaging customers through loyalty-building activities across customer touchpoints.

Consumer banking and Current Accounts and Savings Accounts (CASA) share of wallet	Business banking and corporate banking share of wallet	Non-core business drivers to increase other avenues of income	Process innovation and performance evaluation

Strategic pillars of OOPS with customer-centric initiatives

Consumer banking and CASA	Business and corporate banking CASA	Non-core business drivers	Process innovation and performance evaluation
Customer segment initiatives	Growth initiatives	New business lines/ segments	Productivity
New business model initiative	Customer-centricity	Business volume growth	Customer profitability
Road to one million customers	Enhance value propositions	Share of wallet	Customer experience
Processes and procedure initiatives	Key resources	Tariffs, systems and procedures	Employee motivation, drive, and engagement
			Management Information Systems (MIS)

As part of the OOPS initiative, the current business model of the Bank was re-evaluated, based on a nine-building block analysis methodology. This includes analysing customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partners, and cost structures as part of the Bank's efforts to shift its perspective from organisation-centric to customer-centric.

The Bank focuses on enhancing productivity at branch level while reducing the paperwork of day-to-day operations as part of its efforts to move towards a modern paperless work environment and establish sustainable green banking solutions. To improve business processes, the Bank is implementing lean management principles, truly paperless processes, improved workflow tools, and automated task management.

The Bank is also improving MIS and innovation while focusing on customer profitability and employee motivation and engagement. The Bank carries out marketing and promotional activities in the city and rural areas, aiming to raise brand awareness and establish itself in the minds of retail banking customers.

SWOT analysis

DFCC Bank conducted a SWOT analysis to identify possible avenues that are available to the Bank to capitalise on its strengths, identify opportunities, overcome weaknesses, and face market threats.

Strengths

- Stability and re-inforced AA-rating
- Professional and friendly staff
- Deep knowledge in project lending and complex lending areas such as energy financing
- Rich development banking heritage as the country's pioneering development bank
- Subsidiary network in diverse disciplines
- Strong reputation built on ethics and trust
- Improvement in Customer Relationship Management (CRM) and Business Intelligence (BI) tools; the Bank is just starting to become more data-driven in terms of research and surveys

Weaknesses

- Gaps in speed of service compared to competitors
- Risk-averse mindset
- Bureaucratic processes and procedures
- Most systems less agile
- The Bank's vision needs to be deeply embedded across the Organisation
- Sub-optimal organisation structure
- Communication gaps between layers of staff

Opportunities

- Ability to take on an advisory role to select segments based on over 63 years of experience
- Expertise in niche areas such as solar financing
- Ability to explore further synergies with subsidiaries and affiliated companies
- Potential to enhance value by focusing on digital and customer-centric offerings

Threats

- Rate of industry disruption
- Heavy competition in commercial banking and digital space from more established banks
- Not recognised in the market for commercial/ retail banking
- Non-Bank Financial Institutions (NBFIs) encroaching on DFCC's turf
- Tighter regulations leading to increased data requirements by CBSL

Outlook for 2019 and beyond

DFCC Bank has set for itself the "Big Hairy Audacious Goal" of becoming the Bank that offers the best customer experience in banking with a target of achieving five million customers by 2025. This target was formulated by the Management with the guidance of the Board of Directors and assistance from an external strategic management consulting firm.

In arriving at such a goal, the Bank foresees the future of banking to rely on advancement in emerging technologies and challenges from changing customer requirements, human resources and regulatory framework.

Strategic Direction

Key operational optimisation opportunities	Key revenue enhancement opportunities
• Digital Customer Experience (CX) • Business Intelligence (BI) • Lean transformation • Product design process • Organisational structure review	• Effective customer segmentation • Organic and inorganic growth opportunities

DFCC Bank's strategic direction revolves around customer-centricity and a strong focus on digital. The Bank aims to optimise resource allocation in these areas whilst also focusing on key operational optimisation opportunities and key revenue enhancement opportunities.

In driving digitalisation, the Bank will focus on improving the company website, adopting an omni-channel strategy, and focusing on the customer conversion process to deliver an enhanced digital customer experience.

DFCC idea hub

The formation of the DFCC idea hub in 2017 aimed to bring together various stakeholders from the Bank to collaborate and innovate. The objective of this committee is to work together, brainstorm ideas, and evaluate new fintech solutions. This enables the Bank to gain an early understanding of the general applicability of creative solutions to enhance the Bank's customer experience through varied products and services, and customer engagement propositions. The committee has been successful in churning out several great initiatives which has and will continue to create a distinct difference in the market for the DFCC brand.

Stakeholders

As DFCC Bank assumes the roles of an investor, an employer, and a business partner, the activities it engages in can have an influence on the individuals and organisations it interacts with on a continuous basis. Similarly, their activities can also influence the business and they constitute the Bank's stakeholders, with whom it establishes healthy and sustainable relationships based on the foundation of its seven core values.

Stakeholder engagement

The success of DFCC Bank is defined by the relationships the Bank establishes with its stakeholders. Meaningful engagement with stakeholders is fundamental to decision-making processes and fulfilling the Bank's commitment towards responsible and sustainable value creation. The Bank engages with its stakeholders via various means and at frequencies that are most relevant to each stakeholder group.

Investors

DFCC Bank's business is capital-intensive and our investors ensure continued growth through the provision of equity and debt capital. Our responsibility to investors is to ensure that our growth offers optimal returns on their investments.

Our Board-approved Corporate Communications Policy ensures that investors can make well-informed decisions about investments in the Bank. Information about financial performance and progress is made public through the Colombo Stock Exchange (CSE) and is also communicated through the Annual Report, media releases and the website. We make every effort to convey context and insight on the Bank's value creation process.

We communicate with investors through the Annual General Meeting, stock exchange announcements, the investor relations hotline, meetings, and teleconferences. Key issues tackled through these channels include Board governance, sustainable performance, and initiatives to enhance shareholder returns.

Customers

Customers are the source of our earnings and we exist to serve them. Our relationship with customers requires us to understand their needs and requirements to provide them with a portfolio of financial products and services that are relevant and comprehensive.

Understanding the interests and concerns of customers helps us to create and refine products and services, terms and conditions, tariffs, service standards, and financial advice. We engage with customers through our front-line staff, relationship managers, advertising and promotions, media releases, branch personnel, the Bank's website and social media platforms, alternate channels, the call centre, surveys, and other automated services.

Employees

The Bank's employees are the backbone of our Organisation. They embody our core values and through them, we achieve our mission and fulfil our vision. We endeavour to ensure that they are well fostered, inspired, and rewarded for their efforts and contributions to the Bank.

DFCC Bank's internal Code of Conduct is accessible to its employees via the internal web portal. The Code of Conduct expresses our business ethics in relation to avoidance of conflicts of interest, insider dealings, unfair business practices, and the confidentiality of sensitive information. A Whistleblowing Policy encourages employees to report any observations of illegal or unethical practices. A Board-approved Grievance Handling Policy and Procedure ensures that employees are provided with a fair, successful, and productive workplace environment.

We engage with employees through meetings, performance reviews, the intranet, the human resources portal, email bulletins, the weekly newsletter, training workshops and seminars, special events, employee surveys, the suggestion box, and grievance procedures.

External interactions

DFCC Bank is a member of several associations and organisations, and staff actively participate in activities coordinated by these institutions. A list of industry associations and organisations that we have obtained membership in or establish affiliations.

Refer page 64 for more details on external memberships.

Business Partners

DFCC Bank's business partners include institutions that provide lines of credit (to manage or to on-lend) and vendors that provide goods and services required for business operations. They are an important constituent of the Bank's value chain, and with their support and participation, we create sustainable value.

The Bank's international financiers are interested in the sourcing of funds, the progress of programmes financed, social and environmental management practices, compliance, the overall health of the Bank, and the latest developments and opportunities. We engage with business partners through electronic exchanges of information, teleconferences, and participation in review missions.

For the Bank's suppliers, a Board-approved Procurement Policy has been established. Communications with suppliers primarily revolve around quality, reliability, and pricing, while building mutually rewarding long-term relationships.

Regulators

Regulators protect and enhance the country's financial system through the implementation and enforcement of rules and regulations. Regulators are vital to increasing market confidence by combatting financial crime and protecting consumers, thus benefiting all involved parties. The Bank abides by these rules and regulations by complying with all applicable legal and regulatory requirements, and conducting business in an ethical, transparent, and responsible manner.

Communications with regulators often cover compliance with regulations, business operations, financial information pertaining to the Bank, voluntary guidelines and best practices, new legal and regulatory developments, financial inclusion, and matters affecting the financial sector. The Bank also engages with regulators through industry bodies through the timely submission of prescribed reports and returns, participation in meetings, forums, task forces, and conferences, as well as media releases and the corporate website.

Society and Environment

The communities the Bank operates in are a source of customers and employees. It is essential to understand their perceptions and expectations of us. Accordingly, we mould our operations and Corporate Social Responsibility (CSR) initiatives around our communities to foster mutually beneficial partnerships.

The Bank interacts with local communities through our branch network and public events. We support them through volunteer efforts and CSR activities that cover entrepreneurial development, education, environment conservation, emergency relief, and sponsor deserving causes. We also engage with them via the media through meetings, press conferences, press releases, and our corporate website.

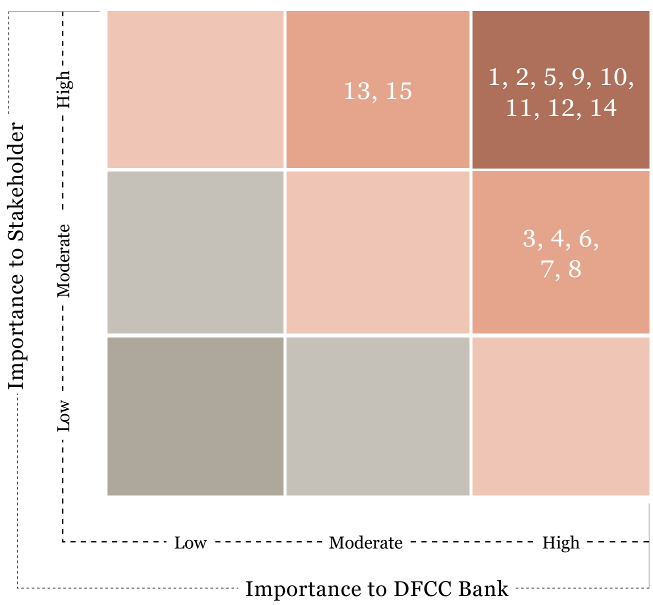
Materiality

Materiality and value creation

Any economic, social, and environmental aspect that has an influence on the Bank's ability to create sustainable value is taken into consideration when formulating the Bank's strategic direction and key priorities. These aspects are deemed material if they are both relevant and significant to our stakeholders and to the Bank. Significance considers the magnitude of the impact of these aspects and the likelihood of their occurrence.

Materiality matrix

In our materiality analysis, we determine aspects that are of importance to our stakeholders and to the Bank with respect to our economic, social, and environmental agenda for sustainable value creation. These have been mapped on the GRI Standards two-dimensional matrix.



No.	Category/Topic
1.	Economic performance
2.	Market presence
3.	Indirect economic impacts
4.	Procurement practices
5.	Anti-corruption
6.	Energy
7.	Emissions
8.	Environmental compliance
9.	Employment
10.	Training and education
11.	Non-discrimination
12.	Local communities
13.	Marketing and labelling
14.	Customer privacy
15.	Socio-economic compliance

Management approach

By engaging effectively with stakeholders, we can map a portfolio of strategies. The careful execution of these strategies can lead the Bank to generate and deliver value to its stakeholders and derive value accordingly. This process helps to achieve the strategic goal of certifying the sustainability of the operations of the Bank. It also helps to establish strong relationships with customers, empower employees with mutually rewarding careers, generate steady returns for investors, establish mutually beneficial and profitable partnerships with partners, and act responsibly towards society and the environment.

The Management Discussion and Analysis section that follows discusses the initiatives the Bank has undertaken during the period under review in further detail.

Scan to view the GRI Content Index
http://dfcc2018.annualreports.lk/grii.html

Value creation is a two-way process, as the ability of an organisation to create sustainable value for itself is also related to the value it creates for its stakeholders. It leads to capital formation.

Our Management Discussion and Analysis is thus structured likewise, based on value creation and capital formation, both on-balance sheet and off-balance sheet.

Financial Capital

Financial performance

Overview

DFCC Bank ended the year 2018 with mixed positives. The total asset base of the Bank grew by 13% year-on-year to LKR 374,908 Mn with loans and receivables of LKR 249,734 Mn as at the year end. The deposit base experienced a substantial growth of 25% recording an increase of LKR 48,930 Mn to end the year at LKR 242,238 Mn, while the CASA (Current Accounts and Savings Accounts) ratio slightly improved to 21.8% compared to last year.

As a result of the challenging business environment that prevailed during the year, DFCC Bank's NPL ratio moved up to 3.28% as at 31 December 2018 from 2.77% in December 2017. The ratio was however managed at a level below the industry average of 3.4% as at December 2018.

Profitability

DFCC Bank PLC, the largest entity within the Group, reported a profit before tax of LKR 4,233 Mn and a profit after tax of LKR 2,768 Mn for the year ended 31 December 2018. This compares with a profit before tax of LKR 5,792 Mn and a profit after tax of LKR 4,415 Mn in the previous year. The profit for 2018 however includes a one-off fair value loss on Commercial Bank shares transferred to the trading portfolio and the recently introduced debt repayment levy (DRL) imposed on the value addition on financial services, while the profit for 2017 includes a gain from the sale of Commercial Bank shares. When the loss and gain on account of the Commercial Bank shares and the DRL are eliminated for an equitable comparison, the resultant profit after tax reflects a growth of 10% over 2017 (as detailed in Table 1).

The Group recorded a profit before tax of LKR 4,676 Mn and profit after tax of LKR 3,070 Mn for the year ended 31 December 2018 as compared to LKR 5,891 Mn and LKR 4,434 Mn respectively in 2017. All members of the DFCC Group made positive and improved contributions to this performance.

Net interest income

The Bank's total income for the year 2018 was LKR 39,154 Mn recording an increase of 9%. The interest income consists of 97% of the total income of the Bank. Following a judicious growth strategy which took into consideration the challenging environment faced by the country, DFCC Bank recorded a year-on-year growth of 17% in its net portfolio which when coupled with prudent management of asset and liability pricing, enabled the Bank to achieve this growth.

The Bank's net interest income recorded a credible growth of 9% to LKR 12,415 Mn from LKR 11,343 Mn in 2017 in spite of adopting a policy of non-recognition of income on credit impaired loans during the year. The interest income grew by 16% to LKR 38,148 Mn while the total interest expenses increased by 19% to LKR 25,733 Mn due to the significant growth of LKR 48,930 Mn in fixed deposits during the year. As a result, the interest margin decreased marginally to 3.5% from 3.6% in 2017.

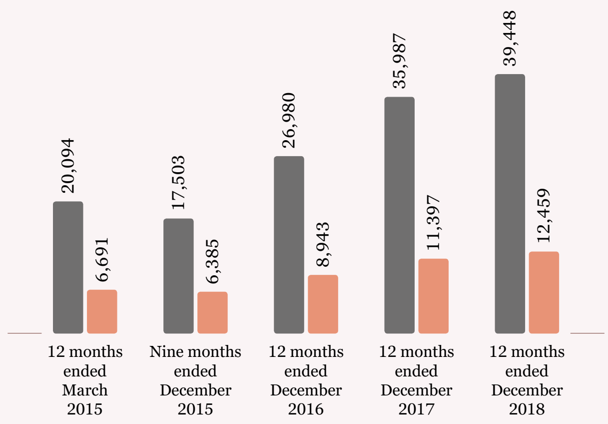
Fee and commission income

Growth in overall business segments, introduction of new products based on changing needs of customer profiles and expanding delivery through electronic channels and other means helped the Bank to record a 26% growth in net fee and commission income. Fees generated from loans and advances, and from services provided through customer accounts accounted for the majority of the increase. Fees collected from trade-related services, Remittances, issue of Guarantees and Bancassurance services grew during the year.

The Bank's credit card income recorded a moderate growth. DFCC Bank created history by becoming the first bank in Sri Lanka to be certified for Visa's QR Payment Solution. This move would add more value to the customer convenience and will open up considerable growth in earnings from this important business line.

Income (Group)

LKR Mn

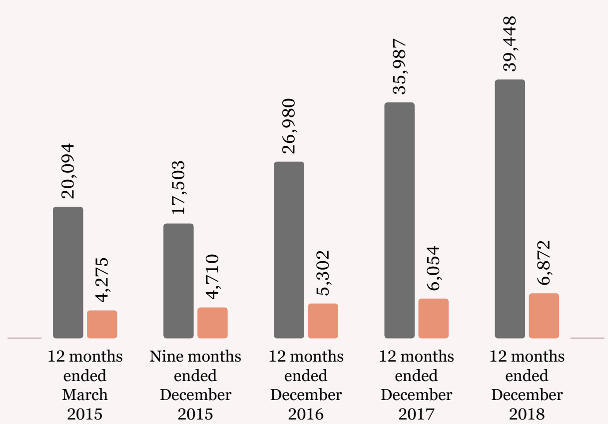


Impairment charge on loans and other losses

With the adoption of SLFRS 9 which replaces the "incurred loss" model with the "expected credit loss" model, the Bank recognised LKR 3,700 Mn as the first day impact to its equity base at the beginning of the year. Even though the individual impairment increased to LKR 1,084 Mn from LKR 724 Mn in the year 2017, the overall impairment charge including the collective impairment for the year was LKR 1,056 Mn compared to LKR 1,176 Mn in 2017. Recovery processes are being rigorously pursued to minimise any actual losses that may arise from the specific exposures.

Total income to operating expenses (Group)

LKR Mn



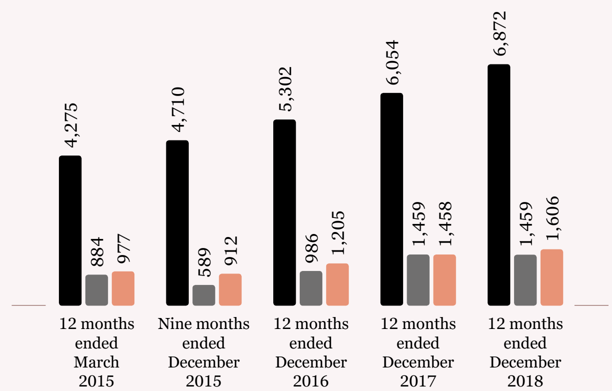
Operating expenses

As part of its growth strategy, DFCC Bank continuously invests in its infrastructure. During the year, the Bank increased its branch network, expanded its product base and created multiple channels for service delivery, which contributed towards an increase in revenue streams, deposit growth and the Bank's customer base.

The incremental cost that was incurred as a result of this growth in business contributed to a 14% increase in operating expenses. However, careful monitoring and effective cost control measures adopted during the year helped to maintain the increase at a moderate level and resulted in a cost to income ratio of 49.7% for 2018.

Expenses (Group)

LKR Mn



Profit after tax (PAT)

The Bank reported a profit after tax of LKR 2,768 Mn, a decline of 37% from LKR 4,415 Mn in the year 2017. The Group profit after tax attributable to equity holders of the Bank decreased by 31% to LKR 3,011 Mn compared to LKR 4,362 Mn in the year 2017.

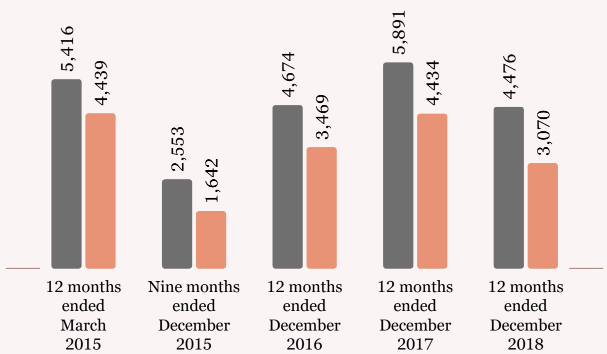
However, when the loss and gain on account of the Commercial Bank of Ceylon shares and the debt repayment levy are eliminated for an equitable comparison as indicated in Table 1 below, the resultant profit after tax of the Bank is LKR 3,851 Mn for 2018 and LKR 3,498 Mn for 2017, reflecting a growth of 10% over last year.

Table 1

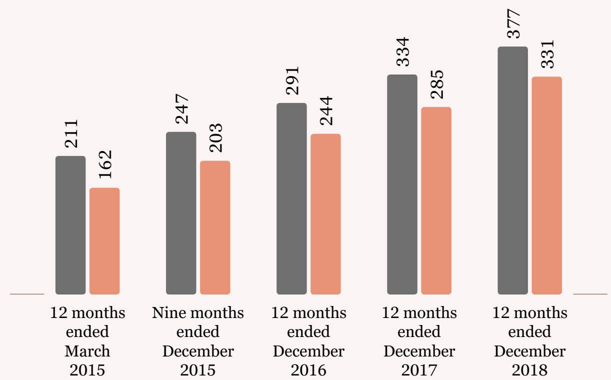
For the year ended 31 December	2018 LKR 000	2017 LKR 000	Change %
Profit for the year – reported	**2,768,179**	4,414,964	(37)
Marked to market loss on CBC shares, net of taxes (Note a)	**870,559**	–	–
Gain on sale of CBC shares, net of taxes (Note b)	–	(917,120)	–
Debt repayment levy – effective from 1 October 2018	**212,549**	–	–
Adjusted profit for the year	**3,851,287**	3,497,844	10
(a) Marked-to-market loss on CBC shares, net of taxes			
Net marked-to-market loss on equities (Note 12)	**1,018,554**	–	
Less: VAT and NBT on financial services	**145,995**	–	
	870,559	–	
(b) Gain on sale of equity securities, net of taxes			
Gain on sale of equity securities (Note 15)	–	1,073,030	
Less: VAT and NBT on financial services	–	155,910	
	–	917,120	

CBC – Commercial Bank of Ceylon PLC

Group profit before and after tax
LKR Mn



Assets and liabilities (Group)
LKR Bn



Financial position analysis

Assets

The Bank's total asset base as at 31 December 2018 grew by 13% to LKR 374,907 Mn from LKR 333,107 Mn as at 31 December 2017. The growth of the asset base was mainly as a result of the growth of LKR 36,058 Mn in loans to and receivables from other customers.

The term loans recorded the highest growth of LKR 26,064 Mn out of the total growth in loans to and receivables from other customers, followed by trade finance with a growth of LKR 10,164 Mn.

DFCC Bank was the major contributor to the asset base and the Group's total asset base increase was the same as that of the Bank.

Liabilities

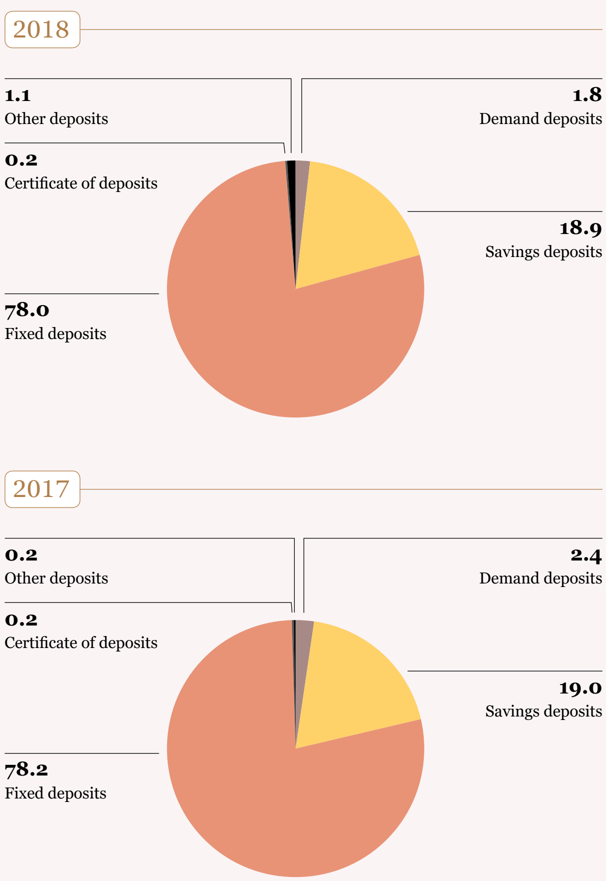
The liabilities increased by 16% over the previous year to LKR 331,061 Mn as at the year end. The main increase was due to the substantial growth of LKR 48,930 Mn in customer deposits and the increase in subordinated term debt of LKR 7,653 Mn. In October 2018. The Bank was also able to successfully repay the International Bond of USD 100 Mn.

With the increased deposit growth, DFCC Bank was able to report an improved loan to deposit ratio of 103% from 110% in December 2017. The Bank's CASA ratio, which represents the proportion of low cost deposits in the total deposits of the Bank, was 21.8% as at 31 December 2018. Funding costs for DFCC Bank were also contained due to access to medium to long-term concessionary credit lines. When these concessionary term borrowings are added to deposits, the ratio improved to 28.6% as at 31 December 2018.

DFCC Bank continued its approach to tap local and foreign currency related, long to medium-term borrowing opportunities. This has increased other borrowings by LKR 6,094 Mn during the year under review.

Deposit mix (Group)

%



Equity and compliance with capital requirements

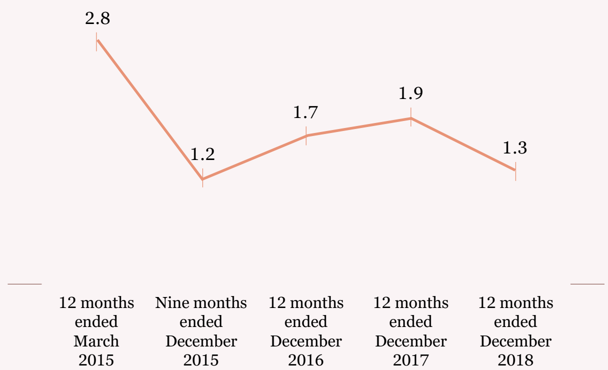
DFCC Bank's total equity decreased to LKR 43,846 Mn as at 31 December 2018 from LKR 47,877 in December 2017. The main contributor to the decrease was the drop in fair value of equity securities and fixed income securities.

The basic earnings per ordinary share of the Bank decreased to LKR 10.44 in 2018 from LKR 16.65 in 2017. The Bank's return on equity (ROE) reduced to 6% in 2018 from 9.4% in 2017. The Bank's return on assets (ROA) before tax was 1.2% compared to 1.9% in the previous year. Furthermore, the Bank's net asset value per share was down by 13% to LKR 165.40 from LKR 180.60 in 2017.

DFCC Bank has consistently maintained a capital ratio above the Basel III minimum capital requirements. As at 31 December 2018, the Group's Tier 1 capital adequacy ratio stood at 10.88% while the total capital adequacy ratio was 16.17%. On a solo basis, as at 31 December 2018, DFCC Bank recorded Tier 1 and total capital adequacy ratios of 10.77% and 16.07% respectively. These ratios are well above the minimum regulatory requirements of 8.5% and 12.5% effective January 2019.

Return on Assets (Group)

%



Return on Equity (Group)

%

Credit quality

During the year, DFCC Bank was successful in growing its loan book covering corporate, retail and small and medium-term business segments. The expansion into new geographical areas and new customer segments increased the challenge to maintain a sustainable risk profile. The Bank continued to improve its pre and post credit monitoring mechanisms through changes to internal processes and timely actions. This has brought positive results in maintaining credit quality.

Dividend policy

The Banking industry faced many challenges during the year; both from business and regulatory fronts. The adverse weather conditions and political upheaval that prevailed during the year became constraints for the growth of returns on equity. The minimum capital requirements became more stringent with the adoption of BASEL III. Other factors which affected were impact on the adoption of the new accounting standards and the introduction of the new tax laws. Based on the medium term projected growth plan, the Bank has projected an asset base of over LKR 500 Bn and above to be achieved by year 2021, with the intention of becoming a systematically important domestic Bank. This will result in the need to maintain an increased Tier 1 ratio of 10% by 2021. The Board of Directors after considering all of the above has approved a dividend of LKR 3.50 per share for the year ended 31 December 2018.

Group performance

The DFCC Group consists of DFCC Bank PLC and its subsidiaries; DFCC Consulting (Pvt) Limited, Lanka Industrial Estates Limited (LINDEL), Synapsys Limited, its joint venture company Acuity Partners (Pvt) Limited (Acuity) and its associate company National Asset Management Limited (NAMAL). LINDEL is a 31 March reporting entity whilst the others are 31 December reporting entities. For the purpose of consolidated financials, 12 months results from 1 January to 31 December 2018 were accounted for in all Group entities. Financials of the 31 March entity was subject to a review by its External Auditor covering the period reported.

The Group made a profit after tax of LKR 3,070 Mn during the year ended 31 December 2018. This is compared to LKR 4,434 Mn made in the year 2017. DFCC Bank accounted for majority of the Group profit with profit after tax of LKR 2,768 Mn while LINDEL (LKR 121.2 Mn), Acuity (LKR 304.7 Mn), Synapsys (LKR 9.5 Mn) and DFCC Consulting (LKR 24.8 Mn) contributed positively by way of profit after tax to the Group. In the previous year, Acuity, DFCC Consulting and LINDEL reported profit after tax of LKR 175.6 Mn, LKR 1.7 Mn and LKR 146.1 Mn respectively. Synapsys reported a loss of LKR 10.2 Mn. The associate company, NAMAL contributed LKR 2.4 Mn to the Group down from LKR 9.4 Mn in the year 2017. An Inter-company dividend of LKR 132 Mn was paid to DFCC Bank by LINDEL (LKR 70.3 Mn), DFCC Consulting (LKR 1.5 Mn) NAMAL (LKR 27 Mn) and Acuity (LKR 33.2 Mn) during the year.

DFCC Bank’s business unit performance

Corporate banking

In furtherance to the gradual transition of DFCC Bank from a traditional development bank to a modern dynamic and fully-fledged commercial bank, the Corporate Banking Unit aggressively perused a growth strategy in its commercial banking portfolio during the year. This resulted in a broadening of its commercial banking clientele across a variety of industries and financing needs. The Unit was also successful in converting several traditional term loan customers of the Bank into carrying out commercial banking transactions, resulting in higher non-interest income, whilst providing customers with greater convenience as a one-stop-shop for all its financing needs.

Continuing the drive to build up a sizeable offshore lending portfolio, the Bank granted term loan facilities to two hotel companies in the Maldives during the year-one a greenfield resort project and the other a refurbishment and upgrade of two existing resorts. In addition, the Bank extended a guarantee facility to a contractor engaged in landscape services to world class resort developers in the Maldives. With its footprint already established in the Maldives, DFCC Bank’s focus for off-shore lending in 2019 will be in perusing opportunities in other countries in South Asia in addition to East Africa.

Recognising the importance of the dairy sector to the Sri Lankan economy, the Bank extended a loan facility to a 2,000 head dairy project at Ambewela which aims to supply fresh milk both for direct consumption as well as for further processing into other forms of dairy-based products. This project is expected to deliver 20 million liters of fresh milk at its peak capacity and will use the most modern automated dairy farming machinery sourced from Europe. The project will substitute approximately 2,300MT of imported milk powder per annum saving the country valuable foreign exchange.

The Unit strongly believes in maintaining a cordial and mutually beneficial business relationship with its clientele. To this end, several customer functions were held during the year to further the business relationships with its clientele.

Despite the challenging operating environment during the year, corporate banking recorded a portfolio growth of LKR 21,641 Mn during 2018.

As a testament to the prudential measures adopted in granting credit and the stringent continuous monitoring of credit facilities granted, the Unit maintained its non-performing ratio at 0.01%.

With the launch of the DFCC iConnect Payments and Cash Management Solution, the Bank is now in a position to offer a complete banking solution to meet the needs of every customer. The Unit will focus on capitalising on the technological leadership of the iConnect product to attract more customers to carry out commercial banking activities with DFCC Bank, and to support the drive to build a stronger CASA base for the Bank through collection accounts. The Unit will also utilise the corporate contacts as a channel for promoting PFS and card products to the employees of its corporate clientele.

Business banking

A mix of lower-end corporate customers, high-end SME customers and retail customers are served through the Business Banking Unit. The Unit offers a range of comprehensive development banking, commercial banking and retail banking products to customers. The fund based products include greenfield project financing, term loans for construction of buildings/ factories, and permanent working capital funding. Fee based products offered by the Unit include Letters of Credit and Guarantees to cover transaction related contingencies. Leasing facilities, housing loans, and personal loans are offered to cater to retail customers.

During the period under review, the business banking assets portfolio grew to LKR 28,544 Mn by 9.6%. The consumer banking assets portfolio grew to LKR 1,436 Mn by 16.5%, with a notable increase in the leasing portfolio. The liability base consisting of Fixed Deposits, Current Accounts and Savings Accounts saw a decline due to the competitive market environment.

The Business Banking Unit will focus on growing the CASA base in 2019 by adopting a strategy of focusing on new relationships whilst strengthening existing relationships. Strategic changes to the Unit have been made in order to improve the overall performance in 2019.

Branch banking

DFCC Bank's branch network offers a wide variety of financial services to Retail, Small and Medium Enterprise (SME) and Micro, Small and Medium Enterprise (MSME) sectors across the country. During 2018, the overall lending portfolio recorded a growth of 11% and the Consumer Banking portfolio achieved a growth of 16%. Branch banking recorded a growth of 12% in deposit portfolio in 2018. The CASA ratio is maintained at 23%.

In spite of adverse changes in the external environment, Branch Banking maintained a healthy credit portfolio as a result of proactive follow up and recovery procedures adopted during the year.

DFCC Bank converted 10 extension offices into fully-fledged branches during the year and will continue to do so, thus enhancing its offering of financial services. In 2019, the Bank expects to further expand the network with new branches in key cities across the country.

Going forward, the Bank will continue to focus on increasing its customer base through aggressive acquisition campaigns targeted at youth and salaried employees. The sales team of the Bank will continue to enhance customer convenience through initiatives such as doorstep banking. The Bank will also expand its digital footprint by increasing self-service terminals both at branches and off-site locations. Alongside its aggressive growth plan for the year ahead, the Bank's focus will remain on maintaining the portfolio quality and offering the highest level of service to all customers.

DFCC Bank's focus on SMEs and MSMEs

DFCC Bank, as the pioneer development bank in Sri Lanka has always played the role of a true partner rather than a mere financier for many SMEs, in developing them into big league businesses.

Branch Banking promotes concessionary loan schemes and has been actively involved in granting facilities under E-friends II (RF), SMILE III (RF), SMELoC, *Saubhagya, Jaya Isuru* and *Ran Aswenna* during 2018. Total loans and leases under these concessionary loan schemes during the year was LKR 3,882 Mn.

Furthermore, DFCC Bank provided financial support to rebuild business ventures of both customers and non-customers of the Bank affected by natural disasters through "*Vardhana Sahanaya*", a DFCC Bank funded concessionary loan scheme.

The MSME Unit was set up in September 2016 to exclusively provide financial services to Small Business Enterprises (SBEs), that eventually become SMEs. The main objective of setting up this unit was to promote and encourage viability based lending and thereby support financially inclusive economic growth.

The MSME Unit offers "*Vardhana Sahaya*" which is a one-stop-shop financial solution that includes loans, leases, bank guarantees, and other commercial facilities below LKR 3 Mn to SBEs catering to key segments of the economy – agriculture, manufacturing, trading, and services.

Using existing value chains of tea, fruits and vegetables, field crops and dairy, DFCC Bank reaches out to micro-level cultivators and smallholders. During the year, the MSME Unit granted facilities and acquired over 2,000 customers.

This Unit also conducts workshops titled "*Sahaya Hamuwa*", a skill enhancing training programme series conducted with the participation of key resource personnel from the Central Bank of Sri Lanka. The primary focus of these programmes is to increase the financial literacy and financial management abilities of MSMEs, in addition to offering financial services. Twenty workshops were held in 2018 across the country.

DFCC Bank received an award for "Outstanding Sustainable Project Financing" at the Global Sustainable Finance Awards 2018 in Germany, in recognising the success in financing MSMEs.

EIB SME and Green Energy Global Loan

The €90 Mn EIB SME and Green Energy Global Loan credit line implemented by DFCC Bank was fully disbursed in 2018. Total disbursements amounted to LKR 14,683 Mn for 163 projects from three participating intermediary banks including DFCC Bank.

SME projects in a variety of sectors island-wide were funded. Prominent sectors were auto services and repair, bakery products, construction, education, healthcare, manufacturing including agro-processing, printing, retailing, tourism, and trading. Under "Green Energy", 18 grid-connected renewable energy power plants using varied sources of energy – hydro, wind, solar and bio-mass, with an aggregate capacity of 56.7MW were funded.

Retail banking

DFCC Bank offers a comprehensive range of financial solutions for its retail customers specially designed to meet individual requirements. These flexible financial solutions include personal loans, overdrafts, housing loans, vehicle loans and leasing, and educational loans. A host of attractive deposit products are also available catering to individuals across target segments.

Within the corporate structure, Retail Banking is divided into two separate units for assets and liabilities in order to optimise performance.

Assets

Housing

DFCC Bank's Housing Loan product is considered an integral part of the Bank's consumer banking offering and is being widely offered to executives, professionals, private sector and public sector employees, and entrepreneurs who look for financing for their new home.

2018 was a significant year for housing loans, where the portfolio witnessed a growth of 19.8%.

The Bank capitalised on the increasing demand for condominium apartments and utilised the same as a tool to achieve desired growth targets. Tripartite agreements were entered into, with several renowned developers (40+ condominium projects) who assisted in attracting customers to obtain home loans from the Bank. Functions were organised in collaboration with property developers to educate customers on the benefits offered by the Bank and each developer. Special housing loan packages with grace periods, flexible payment terms and benefits on early settlements etc. were designed to benefit customers when purchasing their condominium units.

A number of promotional activities were carried out across the island during the year to create awareness among prospective customers as well as existing customers on the home loan offerings of the Bank.

The product's unique selling propositions are attractive interest rates and superior service. The staff of all branches of the Bank and sales teams are fully-geared to serve customers and meet high standards of service.

The strategies will continue in 2019 as well.

Leasing

A pioneer in the industry, DFCC Bank has continued to provide leasing solutions for both SMEs and individuals. Leasing is the strong hand of consumer assets at DFCC Bank and amounts to the largest portfolio among the consumer asset products. Despite challenges faced by the leasing industry during 2018, DFCC Leasing successfully grew by 11% during the year.

Understanding the needs of customers, the Bank also introduced *Waruwen* Leasing, a service that provides a lease within half a day. The Bank also entered into strategic tie-ups with leading brands throughout the year with a focus on the category of commercial vehicles.

Apart from the SME segment, the product caters to the fixed income and professional market segments with special offerings in terms of interest rates, extended tenures as well as structured repayment plans.

A new advertising campaign, *Dan kale hari* (Now's the time) was launched during the year offering several benefits to the customer including zero down payments and guarantor free facilities.

The refinancing arrangements with Asian Development Bank (under the SMELoC credit line) was also a win for DFCC Leasing which provided machinery leases at attractive rates.

DFCC Bank used a two-pronged strategy to market the product. The first being the extended branch network and the next its fleet-on-street. The branch staff and the sales team are fully geared to provide customers with the best services which will further strengthen the Bank's portfolio in 2019.

Personal loans

The year 2018 was significant for personal loans as it was one of the major contributors to the Bank's consumer asset growth. The portfolio recorded a growth of 37%, for the year.

Despite the challenging economic situation in the country and political uncertainty which prevailed during the year, the strategies adopted proved effective and helped to navigate through rough waters.

The Unit successfully optimised market segmentation and employed a strategy of identifying and providing true value to respective segments with tailor-made and flexible solutions. The solutions were structured to cater to the lower middle income, middle income, and higher income brackets of employees in the Government and private sector as well as self-employed professionals.

Varied products were formulated to serve the identified segments. The DFCC Personal loan for lower middle income category, the Speed Loan and Professional Loans for middle income category and the Hiflex loan for the high net-worth employees were a few of the products introduced.

Providing employee banking solutions with tailor-made packages was the key focus to achieve desired results. This approach has been very effective in cross-selling and especially growing CASA. Many tailor-made packages for employees of blue-chip and reputed companies were provided during the year which helped to canvass a significant amount of salary accounts.

Many tie-ups with professional associations and reputed employers have been entered into, which helped to create and explore new markets effectively.

Among the many schemes, the two significant schemes launched were:

Loan scheme for the Government Medical Officers Association (GMOA)

DFCC Bank entered into an exclusive agreement with the GMOA to provide financial solutions for GMOA members. This partnership has been a resounding success which was truly beneficial to the medical officer community of the country.

Loan scheme for the Institute of Engineers of Sri Lanka (IESL)

A special personal loan scheme for the members of The Institute of Engineers was introduced during the year providing value and benefits for the engineering fraternity.

Process efficiencies and delivery has been identified as critical success factors on which the Management has been asserting a special focus. Stringent service level agreements formulated and the deliveries are bench marked and followed up in order to provide a superior customer experience.

A project has been initiated to improve and digitalise the processing work flow. Measures are underway to provide an improved digital experience through web-based applications which is in the pipeline and is expected to materialise in 2019.

Gold-pledged lending

Pawning business recorded a remarkable growth of 26% in 2018. The commendable achievement was a result of aggressive campaigns with attractive rewards for customers pawning with DFCC Bank. Two campaigns were rolled out during the year and were well received by the target segments.

DFCC *Ranwarama* is now a leading competitor in the pawning industry of the country and the Bank has great plans for this product in 2019.

Liabilities and trade business

The Liabilities and Trade Business Development Unit is responsible for driving the growth of deposits and trade business across the branch network. The Unit formulates strategies and key initiatives to achieve its goals by closely engaging with branch staff and the sales team.

Liabilities

A series of key business initiatives were planned and implemented throughout the year to increase the focus on deposits mobilisation. Several campaigns were carried out with the inputs and engagement of all relevant stakeholders, which helped to significantly improve consumer perception that DFCC is a preferred bank for deposits. As a result, the Bank was able to achieve a commendable growth of over 11% on overall Branch Banking liabilities as at 31 December 2018 when compared to 31 December 2017. Overall Branch Banking liabilities grew to LKR 108,316 Mn as at 31 December 2018 from LKR 97,404 Mn as at 31 December 2017. High focus given for CASA mobilisation enabled Branch Banking CASA deposits to grow by LKR 763 Mn during the year, to LKR 25,381 Mn as at 31 December 2018 from LKR 24,618 Mn as at 31 December 2017, recording an overall Bank CASA ratio of 21.8% as at 31 December 2018. Key CASA target consumers such as junior account holders and salaried employees were successfully engaged to generate sustainable CASA deposits.

Trade business

Branch Banking trade business continued on the impressive growth achieved during the previous year in 2018 as well, despite challenging macroeconomic conditions. A team consisting of selected branch staff across the regions were appointed to promote trade business in their geographies. Many training and development programmes were held during the year to upgrade their technical knowledge and business skills. Both internal as well as external resource persons were used for this purpose. Close central monitoring was in place to effectively implement agreed action plans and to achieve the expected outcomes. Growth of over 25% was achieved in Branch Banking import limits during the year, while export limits also recorded a growth of over 36% in 2018. Utilisation remained at high levels due to close follow-up and monitoring.

Card operations

DFCC Bank relaunched its credit cards during the year becoming the first to launch five Visa payWave enabled contactless credit card products in Sri Lanka, in March 2018. The cards range includes Gold, Platinum Signature, Infinite, and the only Visa Corporate credit card in Sri Lanka. It was a significant achievement in the industry to launch all five Visa products after obtaining its primary membership with Visa international in November 2017. DFCC credit cards offer cardholders a unique opportunity, enabling them to save 1% every time they spend, which goes directly into a nominated DFCC savings account.

The unique design of the new range of cards is a significant feature, especially the vertically designed Premier Infinite credit card, another first in the market. The Signature and Infinite credit cards also offer customers a world of exclusive benefits, such as free visits to over 1,000 airport lounges worldwide, travel insurance covering up to USD 75,000, and exclusive Visa offers in many destinations across the globe.

DFCC Bank cardholders were able to enjoy some of the highest discount offers throughout the year at popular merchant locations ranging from supermarkets, clothing outlets, restaurants, electronic and household items, e-commerce sites, and hotels. A special campaign was launched in the month of December namely, "31% CashBack for 31 days", which was well received by customers who received a total of LKR 8 Mn in Cashback value by spending during the season.

The unique offers of the DFCC credit card helped it gain quick popularity and recognition among customers during the year.

DFCC Bank continued to invest in the card business with the introduction of the chip-enabled debit cards, offering more security and benefits to cardholders. Another first from DFCC Bank was the introduction of the interactive credit card e-statement which provides the customer more in depth insight into spending patterns whilst also enabling the customer to convert into flexi-plans and look up promotions at the click of a button.

The credit card portfolio recorded a significant 300% growth adding 8,000 new cards during the year and recorded a total spend of over LKR 1,500 Mn whilst ending the year with an aggregate credit exposure of LKR 500 Mn. Debit cards increased to 160,000 cards with over 36,000 new cards been issued during the year.

The Bank continued the merchant acquiring partnership with a global processor and in return contributed towards LKR 1,000 Mn growth in CASA with over 400 active merchants. DFCC Bank was the first bank to be certified for mVisa QR payments by Visa International in November 2018. The Bank will be introducing innovative solutions in facilitating payments and has focused efforts in 2019 towards continuous growth.

Premier banking

Since 2012, DFCC Premier Banking membership has been offered to clients who maintain deposits over LKR 5 Mn or an equivalent amount in foreign currency.

The dedicated team of professionals at DFCC Premier Banking understand the busy lifestyles of customers within this segment and strive to offer them a seamless banking experience based on the principles of unmatched service quality, professionalism, and utmost care. These customers are served by a dedicated Relationship Manager and are offered comprehensive solutions taking into account their specific needs.

An increase of 27.53% of the client base during the year is a testament to this. Furthermore, DFCC Premier Centre has grown its deposits by 54.33% and its advances by 38.7% during the period under review.

The launch of the Visa Infinite credit card for Premier customers was a key event during the year, offering a host of unmatched benefits such as free lounge access at any airport lounge worldwide and 1% Cashback on the customer's monthly spend. What is also significant is that the Infinite credit card is a lifetime free card.

The Margin trading product was also revamped to enhance service and meet the needs of equity investors.

The revolutionary "Premier Go" app launched in the year 2017 was honoured with a Merit at the prestigious NBQSA Awards. This product enables Premier clients to connect with their relationship managers from anywhere in the world. Furthermore, they can also stay updated on the current promotions and offers, view account balances, schedule appointments, and keep track of their finances.

In terms of events, DFCC Premier Banking continued to provide customers with opportunities to witness internationally acclaimed events. The highlights for the year 2018 included customers being hosted at exclusive events such as the Galle Literary Festival, The Sound of Music Concert, Gaur Gopal Das' CEOs Breakfast Forum, A High Tea with Nigella Lawson, De Lanerolle Brothers Show, SLID Annual Dinner, and the Mamma Mia Concert. During the year, Junior Premier customers were also hosted for an exclusive movie screening of Jurassic World at the Empire Deluxe Theatre, nurturing these relationships at a very young age.

2019 will be an exciting year for DFCC Premier Banking, with the introduction of a new Premier Banking proposition across the branch network. Premier Banking lounges will be introduced at key locations enabling customers to experience the Premier Banking services in their home-towns.

DFCC Premier Banking will also engage with the families of its valued clientele with the launch of a new proposition – DFCC Premier Family.

Treasury

The Treasury Front Office (TFO) of DFCC Bank consists of three main income generating units: the Foreign Exchange and Money Markets Unit, the Fixed Income Unit, and the Treasury Sales Unit that report directly to the Head of Treasury.

The Treasury Middle Office (TMO) functioning independently under the purview of the Chief Risk Officer (CRO) monitors the risks assumed by the Front Office based on Board-approved limits and controls. TMO operations were further enhanced during the period under review in line with the regulatory guidelines.

The Treasury Back Office (TBO) is accountable for the preparation, verification, authorisation, and settlement of all transactions made by the TFO. The TBO independently reports to the Head of Finance/Chief Financial Officer, in compliance with regulatory guidelines.

The year 2018 was a challenging year for the Sri Lankan economy due to the turbulent influence of local developments and global economic factors.

On the domestic front during the period under review, the trade deficit in the trade account expanded significantly as the growth in imports outpaced the increase in exports. This was further aggravated when the US Federal Reserve raised their policy rate four times in 2018, leaving the fed funds rate within the range of 2.25% -2.50%. This increase in US interest rates gradually reduced the risk-return trade-off for foreign nationals to invest in the domestic market, thus resulting in an exodus of foreign funds from the Government Security and Equity Markets. Foreign holdings of Government Securities witnessed a steep decline of 49% in 2018 when compared to 2017.
In absolute terms, LKR 160,000 Mn moved out of the domestic market during the year under review compared to 2017 where there was a LKR 64,200 Mn net inflow. Foreign investment in stock market recorded a net outflow of LKR 22,800 Mn in absolute terms compared to LKR 18,500 Mn inflow in 2017. In this backdrop, the Sri Lankan Rupee depreciated 19.22% in 2018 compared to 2% in 2017.

The depletion of the reserves was mainly due to the effort by CBSL to defend the USD/LKR rate. Gross official reserves increased to a high of USD 9,300 Mn in June 2018 mainly supported by the proceeds of the third tranche from the long lease of Hambantota port amounting to USD 585 Mn and receipts from fifth tranche under IMF Extended Fund Facility programme.

The yields of Government Securities in the primary and secondary market increased during the first quarter of 2018 as a result of the market pricing and the impact of the new tax structure that took effect from 1 April 2018. Considering the low inflation and favourable inflation outlook, as well as lower than expected real GDP growth, the Central Bank reduced the standing lending facility rate by 25 basis points to 8.50% in April. The market rates saw a reversal in the third quarter with market liquidity increasing as a result of less domestic borrowing by the Government as large FDI's and external funding came in. However, foreign investors started exiting from Government security investments towards the end of the third quarter/beginning of the fourth quarter as a result of the US rate hikes, resulting in the rates in the domestic market picking-up again in September. It is noted that the one year Treasury Bill rates stood at 11.20% compared to 8.9%, while five year and ten year Bonds increased to 11.65% from 9.6% and 12.00% from 11.00% respectively by the end of the year 2018 compared to end 2017.

In the month of November 2018, the Monetary Board reduced the Statutory Reserve Ratio (SRR) from 7.50% to 6.00% and increased the policy rates of the Statutory Deposit Facility (SDF) and Statutory Lending Facility (SLF) rates by 0.75% and 0.50% respectively to 8.00% and 9.00% (from 7.25% and 8.50% respectively). The upward move of the policy rates aimed at defending a faltering Rupee as foreign capital outflows picked up amid an escalating political crisis and rising US interest rate. The reduction in SRR was expected to release a substantial amount of Rupee liquidity to the banking system, with the intent of reducing the persistent liquidity deficit in the domestic money market. With the substantial liquidity deficit in the market during the last quarter of the year, the inter-bank money market rates (overnight rates) continued to surge to close the year at 9.00%, compared to 8.15% at the beginning of the year. The closing market deficit was around LKR 148,000 Mn.

Political upheaval in the domestic market deterred investor confidence which resulted in the further depreciation of the Rupee and market liquidity. In this backdrop, Fitch Ratings Sri Lanka downgraded Sri Lanka's Long-Term Foreign-Currency Issuer Default Rating (IDR) to "B" from "B+", with a stable outlook while both S&P and Moody's also downgraded the country's credit rating from "B1" to "B2". Rating agencies said the downgrade reflects heightened external refinancing risks, an uncertain policy outlook, and the risk of a slowdown in fiscal consolidation in the wake of political crisis.

In this context, Treasury has contributed significantly during the period under review to DFCC Bank's bottom line through FX Income, Repo NII, and through efficient management of the funding swap operation.

Treasury grew the liquid asset portfolio by LKR 6,860 Mn during the financial year 2018, closing the position at LKR 62,850 Mn as against the position held at LKR 55,990 Mn in the year ended 2017.

DFCC Bank's Treasury implemented a new state-of-the-art Integrated Treasury Management system, during the first half of the year. The system increases the productivity and efficiency of the operations staff as well as reduces operational risks in the functional areas of foreign exchange, fixed income securities and cash flow management.

Resource mobilisation unit

The Resource Mobilisation Unit falls under the direct purview of the Head of Treasury. It manages all term funding of the Bank, including *inter alia*, credit lines, syndicated loans and local and international debt issuance. The Unit coordinates with rating agencies in their reviews and works to secure ratings for debt issuances. The Unit also manages the Bank's equity and Unit Trust portfolios, related strategic and non-strategic investments, and divestments.

Building upon the relationships the Bank has established over time, the Treasury and Resource Mobilisation Unit actively engages with partner institutions to secure potential funding lines to support the Bank's rapid growth.

Cross Currency SWAP

Breaking new ground in Sri Lanka's banking industry; DFCC Bank successfully executed a Cross Currency SWAP transaction of USD 30 Mn with a Sri Lanka branch of a foreign bank operating locally. Cross Currency SWAP is an over-the-counter (OTC) Interest Rate Derivative (a Quasi Derivative product) with physical exchange of capital and interest amounts between two currencies.

The above derivative transaction executed in March 2018 enabled DFCC Bank to generate Rupees at competitive rates while hedging the interest rate risk and the exchange rate risk of the foreign borrowing of USD 30 Mn from a foreign funding agency. Since the tenor of the SWAP transaction was for a period of three years, this enabled the Bank to hedge the risk exposures for a longer period, compared to conventional avenues such as traditional SWAPs.

DFCC Bank's equity investment portfolio

As per the IFRS 9 guidelines, the equity portfolio is broadly categorised into two categories namely, investments measured at fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI).

As at 31 December 2018, the combined cost of investments in DFCC Bank's holdings of quoted shares [excluding the investment in the voting shares of Commercial Bank of Ceylon (CBC) PLC], unquoted shares and unit holdings amounted to LKR 1,581.91 Mn and corresponding fair value of the same portfolio stood at LKR 1,776.60 Mn.

The composition of the equity portfolio is as follows:

Equity Portfolio as at 31 December 2018

	Cost* LKR Mn	Fair value LKR Mn
Quoted share portfolio (excluding CBC voting)	**945.12**	**895.84**
Unit Trust portfolio	**630.49**	**691.97**
Unquoted share portfolio	**6.30**	**188.79**
Total	**1,581.91**	**1,776.60**

**Net of provision*

The quoted and unquoted share portfolio mentioned in the above table is carried at fair value through other comprehensive income on the Statement of Financial Position while Unit Trust portfolio has been categorised under fair value through Profit and Loss.

During the period under review, the Bank divested a part of its mature stocks in quoted shares, unquoted shares and Unit Trust investments, thus realising a capital gain of LKR 85.19 Mn. DFCC Bank also made new investments in quoted shares to the value of LKR 227.76 Mn including the subscription to NDB (National Development Bank) rights amounting to LKR 75.2 Mn.

At the beginning of the financial year, DFCC Bank transferred part of its investment portfolio in CBC into investments measured at fair value through profit and loss (FVTPL) and the balance was categorised under fair value through other comprehensive income. At the end of the financial year, corresponding fair value of the investments in CBC categorised under fair value through profit and loss (FVTPL) was LKR 5,386.89 Mn, while the investments categorised under fair value through OCI stood at LKR 9,319.44 Mn against cost of LKR 3,208.87 Mn.

Further, the Bank divested part of CBC shares of trading category and realised LKR 14.39 Mn during the period under review.

Bancassurance

The Bancassurance business commenced mid-2014 with a small portfolio of business and is now stepping into its fifth year of operations.

Starting off from modest beginnings, this "other income" generating business unit has grown in leaps and bounds to where it is today, being a forerunner in service provision for the Bank's Loans, Leases, and Retail clientele.

Being a specialist in insurance services, the Unit provides customers with many products and services which cover long-term insurance needs and short-term asset and liability insurance covers.

Some of the specific benefits of general insurance offered to customers are product customisation to match the specific requirements and secure assets of the individuals and institutions, service customisation for process requirements, hassle-free claim settlements and expansion of bargaining power of all parties, specially designed insurance packages, special marketing promotions, and free-of-charge consultation services.

The Unit's service provision in the area of life insurance has offered customers education on how to live a healthy life via many health events and vitality programmes conducted throughout the year. Campaigns were also done throughout the year to raise awareness on mitigation of risks associated with business and life. In addition, the Unit facilitated programmes on parenting for individual customers. Through customer engagement events, the Unit has also created interest with regard to children's higher education.

In the current banking industry, all banks are pushing the boundaries to add newer fee-based and other income generating sources. This includes mainly the distribution of insurance products, while the insurance service is internally handled through Bank operations. Bancassurance income is not mainly a one-time proposition; it generates income repetitively for the Bank over a long-time period. Hence, the continuous growth will contribute towards the Bank's bottom line in the long term.

The Bank also focuses on value creation in a socially responsible manner, where it ensures customers, their loved ones and assets are secured in the event of an unlikely cause while securing the Bank's interest as well.

International banking

During the year 2018, the Bank witnessed a steady growth in fee and commission income related to Trade Services. A growth of 26% in fee and commission was achieved despite the regulatory changes and the unexpected devaluation of the Sri Lankan Rupee during the last quarter of the year.

Total fee and commission income earned by Trade Services in 2018 was LKR 506.4 Mn compared to LKR 399.9 Mn in 2017. The Bank's import and export business volume grew by LKR 25,041.7 Mn in 2018 compared to 2017.

During the year 2018, as per statistics of the Central Bank of Sri Lanka, the export sector of the country grew by 4.1% (up to November) whilst import sector contracted by 9.1% (up to November). However, the Bank's income from exports business grew by 42% and income from imports business grew by 21%.

Total turnover of inward and outward remittances of the Bank during the year 2018 was LKR 19.7 Bn. This is a 62% increase compared to 2017. This volume increase has contributed to 49.1% of fee and commission income related to remittances during the year compared to 2017.

The aforesaid increase in business was a result of continuous strategic initiatives taken by the Bank to drive the trade business and inward and outward remittance business. Corporate Banking, Business Banking, and Branch Banking Units with the assistance of the Trade Business Development Unit, Trade Services and Remittances departments were able to persuade the existing customers to route more repetitive business through DFCC Bank whilst attracting many new Corporate and SME customers to the Bank.

However, during the last quarter of the year, the Bank witnessed a decline in growth of volume and income in imports as a consequence of cash margin requirements imposed by CBSL for importation of certain vehicles and non-essential goods. Further, CBSL prohibited remitting funds as advance payments for certain non-essential goods by converting Sri Lankan Rupees which negatively affected outward remittance transactions. Furthermore, the unfavourable depreciation of the Sri Lankan Rupee also hampered the growth of import business during the latter part of the year.

During the year, DFCC Bank Trade Services won a prestigious award from the Asian Development Bank as the leading partner bank in Sri Lanka for Trade Finance. This is an annual award and in 2018, 23 leading partner banks were selected from 15 countries with DFCC Bank being the only Bank from Sri Lanka.

On the digitalisation front, the current Trade Finance module was upgraded to improve the efficiency of the services provided to customers.

The competent, knowledgeable, and dedicated teams at trade and remittances continue to improve service levels and provide value added services to build, sustain and improve business in the current competitive environment.

Institutional Capital

Institutional capital encompasses a broad spectrum of largely intangible, non-financial components which are a direct result of exemplary governance. It includes components such as organisational knowledge, systems and processes, corporate culture and values, brand, business ethics and integrity, and other such elements that help the Bank to be "in tune" to deliver value to all stakeholders.

Organisational knowledge

DFCC Bank, over a period of 63 years, has built up an unrivalled store of organisational and industry knowledge. The Bank has financed pioneering projects in varied sectors during its development banking era and evolved into a fully-fledged commercial bank serving customers across the Nation. The Bank's successful transformation into a robust multi-product financial institution has even been recognised by the World Bank.

The Bank has also attained a level of professionalism and expertise through a highly-skilled, qualified workforce possessing qualifications and experience in multi disciplinary fields. The Bank supports the professional development of its workforce through training opportunities, knowledge sharing programmes, and by creating a competitive yet focused working environment.

Systems, processes, and IT

The Bank has taken numerous steps to review, maintain, and improve the robustness of its systems and processes in place, to suit the changing operating environment. The Bank's IT systems undergo continuous review to ensure a safe, secure, and trusted banking system. Consequently, DFCC Bank upgraded the core banking system to provide convenience and agility required in a digital banking context. The following are the key initiatives implemented in 2018:

- Completion of the necessary certification to enable the Bank to move into the VISA credit card business
- mVisa Mobile Application development and VISA certification
- Implementation of a debt recovery system to enhance the Recovery Department's productivity and improve processes
- Launch of an interactive credit card statement providing customers with a comprehensive statement in electronic form
- Implementation of an online customer screening solution (World Check) from Thomson Reuters to supplement and enhance the existing Anti-Money Laundering (AML) system
- Enhancement of the Payments and Cash Management (PCM) system and introduction of a mobile application to provide enhanced services to the Bank's PCM clients
- Continued to introduce new process automation workflows to various internal processes to improve the efficiency and enhance customer support for the users
- Introduction of a mobile platform for approval of payments to streamline the payment process
- Expansion of the Mobile Teller system to 30 new branches
- Completion of the Core Network upgrade to enhance security and to support requirements of PCI DSS standard

Corporate culture and values

The corporate culture that exists at DFCC Bank is embedded in the Bank's seven core values of being ethical, innovative, professional, accountable, team oriented, customer centric, and socially responsible. The Bank's corporate culture has evolved over the past six decades to provide its team with a conducive, supportive working environment. The HR policies in place ensure the values of diversity, inclusion, and fairness in the workplace.

Through induction programmes, new employees are eased into the DFCC corporate culture. Programmes conducted throughout the year further reinforces the DFCC values and training programmes enable the workforce in career progression. Other policies like the Whistleblowing Policy, grievance handling, and open-door policies propagate transparency and fairness in the workplace.

In 2018, DFCC Bank launched the Regional Values Championship programme as a measure to encourage employee engagement. Each region appointed a team to champion one value and implemented initiatives related to the assigned value either at bank or regional level. This programme is ongoing and is helping to reinforce the core values of the Bank.

Brand equity

DFCC Bank continued the momentum created in the market through multiple brand building initiatives to reaffirm and strengthen the brand as a fully-fledged commercial bank since its merger in 2015.

Above the line, below the line, PR and digital marketing initiatives continued aggressively, which included a range of marketing campaigns throughout the year to drive the assets and liabilities portfolio. Significant product launches were witnessed during the year which facilitated the creation of top of mind recall for the brand, whilst positioning DFCC Bank as a modern and active player in the banking industry. Positive word-of-mouth created by varied stakeholder groups has created a favourable impact on the brand.

The DFCC credit card was the first-ever CashBack credit card as well as the first vertical card to be launched in the local card industry.

DFCC iConnnect, a state-of-the-art payments solution targeted specifically at the business clientele took payments solutions to the next level, creating a buzz amongst the target customers.

The key strategies to grow the brand continued and were aided by the results of a hybrid qualitative and quantitative research study that was conducted island-wide during the year.

DFCC Bank's role as a pioneer of digitally-enabled products and services was further enhanced in 2018. A new range of digital products were introduced whilst the existing digital products were improved with customer convenience taking precedence.

- DFCC Virtual Wallet – Sri Lanka's first digital wallet in the banking sector that facilitates cashless transactions anytime! anywhere!
- Premier Go – the first interactive Premier Banking app with a host of features, the highlight being that it facilitates customers to connect via a video call with their respective relationship managers
- The relaunch of DFCC credit cards with EMV enabled chip and Visa payWave contactless technology that allows the customer to experience the convenience of tap-and-go
- Launch of DFCC iConnect – a cutting-edge Payments Management Solution for businesses of all sizes

A number of customer engagement programmes were also carried out during the year which facilitated greater customer engagement between Bank staff and select customer groups such as the *Sahaya Hamuwa* forums for Micro, Small and Medium Enterprises and the Galle Literary Festival author forum for premier clientele.

Notable recognition and awards

DFCC Bank received recognition from the following bodies in 2018:

- Most Respected Companies in Sri Lanka: DFCC Bank's brand ranking moved up 37 notches from the previous year to stand at number 48 in LMD's list of Most Respected Companies in Sri Lanka 2018.
- Brand Finance: DFCC Bank's brand value recorded the highest increase of 183% in the list, to reach 27th position in 2018 up from 39 in 2017.
- Most Admired Companies of Sri Lanka: DFCC Bank was recognised as one of the Top 10 Most Admired Companies in Sri Lanka by the Chartered Institute of Management Accountants (CIMA) and the International Chamber of Commerce Sri Lanka (ICCSL).
- World recognition for the Annual Report: DFCC Bank's last Annual Report received world recognition at the Association of Development Finance in the Asia and Pacific (ADFIAP) awards in 2018.

Business ethics and integrity

The Bank is committed to conducting its business and day-to-day operations, adhering to the highest moral, ethical, and professional standards in line with its core values. The Code of Conduct of DFCC Bank outlines the responsibilities of the Bank and its team towards all stakeholders as well as themselves. The Corporate Governance section of this Report (page 94) provides an insight into the governance mechanisms of the Bank and the systems, processes, and policies in place to uphold integrity in all business operations.

Anti-corruption

DFCC Bank follows a zero-tolerance policy against corrupt practices in all business dealings. This is outlined in the Bank's Code of Conduct. The anti-corruption programme initiated by the Bank encompasses numerous reporting and supervisory mechanisms to prevent corruption from taking place, along with online and classroom training to raise awareness among employees.

Compliance

DFCC Bank conforms to all relevant environmental and other statutory laws and regulations. There were no incidents of non-compliance with regards to the Bank's operations, marketing, labelling, loss of customer data, and other processes recorded within the year. Further, no fines were imposed or paid for non-compliance with regulations concerning the Bank's products and services during the year.

Investor Capital

The Bank is focused on communicating relevant and timely information to its investors. This is done with the aim of helping the investors obtain a fair understanding of underlying strengths of the Bank and future business prospects.

Shareholder profile

The Bank had 8,880 shareholders on 31 December 2018 (corresponding to a figure of 8,728 as at 31 December 2017), with the total number of shares in issue remaining fixed at 265,097,688 ordinary shares. Institutions account for approximately 84% of the Bank's share capital. 76% of the Bank's share capital is held by local shareholders, both institutional and individual.

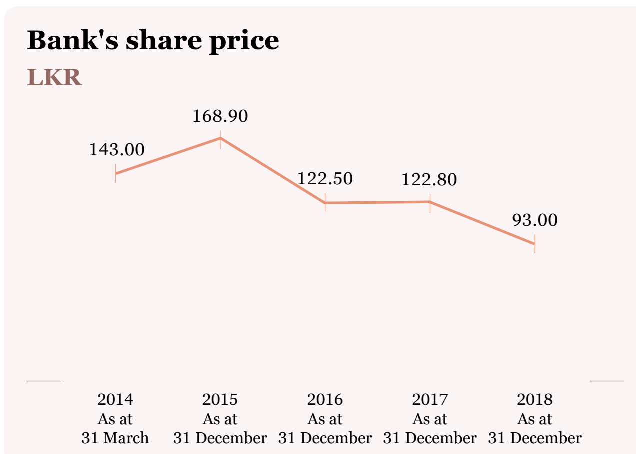
Share information

DFCC Bank share price information for the period 1 January 2018 - 31 December 2018.

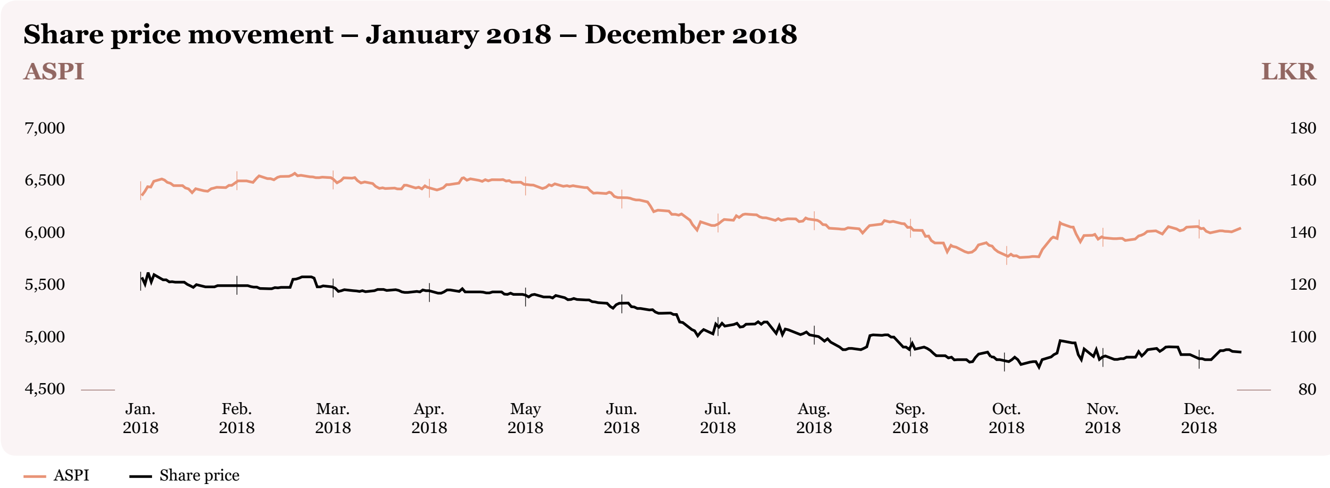
	01 January to 31 December 2018	01 January to 31 December 2017
Price indices		
ASPI	**6,052.37**	6,369.26
S&P SL20	**3,135.18**	3,671.72
Share price		
Lowest price (LKR)	**87.00**	110.00
Highest price (LKR)	**124.70**	138.20
Closing price (LKR)	**93.00**	122.80
Market capitalisation		
Value (LKR Mn)	**24,654**	32,554
Percentage of total market cap	**0.87**	1.12
Rank	**24**	18

	01 January to 31 December 2018	01 January to 31 December 2017
Value of shares traded		
Value (LKR Mn)	**365.31**	1,575.59
Percentage of total market turnover	**0.18**	0.71
Rank	**59**	24
Days traded		
Number of days traded	**239**	237
Total number of market days	**240**	240
Percentage of market days traded	**99.60**	98.75
Frequency of shares traded		
Number of transactions	**5,191**	5,350
Percentage of total frequency	**0.59**	0.54
Rank	**46**	51

Share price



Share price movement



Distribution of shareholding

Categories of shareholders

As at	31 December 2018			31 December 2017		
Shareholding, percentage	**Foreign**	**Local**	**Total**	Foreign	Local	Total
Individual	**8.09**	**7.79**	**15.88**	8.02	7.60	15.62
Institutional	**15.82**	**68.30**	**84.12**	15.89	68.49	84.38
	23.91	**76.09**	**100.00**	23.91	76.09	100.00

Size-wise distribution of shareholding

Share range	31 December 2018			31 December 2017		
	Number of shareholders	**Total holding**	**Percentage**	Number of shareholders	Total holding	Percentage
01 – 1,000	**5,812**	**1,802,814**	**0.68**	5,641	1,794,816	0.68
1001 – 5,000	**2,352**	**4,902,295**	**1.85**	2,362	4,865,268	1.84
5,001 – 10,000	**308**	**2,221,277**	**0.84**	322	2,328,317	0.88
10,001 – 50,000	**294**	**6,427,117**	**2.42**	293	6,448,247	2.43
50,001 – 100,000	**46**	**3,243,705**	**1.22**	41	2,963,550	1.12
100,001 – 500,000	**43**	**8,845,370**	**3.34**	44	9,155,740	3.45
500,001 – 1,000,000	**3**	**1,987,718**	**0.75**	3	1,987,718	0.75
1,000,000 and above	**22**	**235,667,392**	**88.90**	22	235,554,032	88.85
	8,880	**265,097,688**	**100.00**	8,728	265,097,688	100.00

Public holding as at 31 December 2018

	31 December 2018	31 December 2017
Public holding percentage	**63.4**	63.4
Number of public shareholders	**8,867**	8,715
Float adjusted market capitalisation	**LKR 15,631 Mn**	LKR 20,639 Mn
Applicable option as per CSE Listing Rule 7.13.1 (a)	**Option 1**	Option 1

Twenty major shareholders of the Bank as at 31 December 2018

Name of shareholder/company	31 December 2018		31 December 2017	
	Number of shares	Percentage	Number of shares	Percentage
Bank of Ceylon No. 2 A/c	**38,039,994**	**14.35**	38,039,994	14.35
Hatton National Bank PLC A/c No. 1	**32,396,140**	**12.22**	32,396,140	12.22
Sri Lanka Insurance Corporation Limited – Life Fund	**26,509,832**	**10.00**	26,509,832	10.00
Mr M A Yaseen	**26,506,750**	**10.00**	26,296,700	9.92
Employees' Provident Fund	**24,368,995**	**9.19**	24,368,995	9.19
Melstacorp PLC	**22,175,280**	**8.36**	22,175,280	8.36
Seafeld International Limited	**15,286,794**	**5.77**	15,286,794	5.77
HSBC Intl. Nominee Ltd. – BPSS Lux-Aberdeen Global Asia Pacific Equity Fund	**9,842,898**	**3.71**	9,901,281	3.73
Renuka City Hotels PLC	**6,926,870**	**2.61**	6,926,870	2.61
HSBC Intl. Nominee Ltd. – BP2S LDN-Aberdeen Asia Pacific Equity Fund	**5,438,669**	**2.05**	5,470,928	2.06
HSBC Intl. Nominees Ltd. – BP2S London-Edinburg Dragon Trust PLC	**4,528,328**	**1.71**	4,555,187	1.72
Renuka Hotels PLC	**4,073,360**	**1.54**	4,073,360	1.54
Employees' Trust Fund Board	**3,987,952**	**1.50**	3,987,952	1.50
HSBC Intl. Nominees Ltd. – BP2S London-Aberdeen Asia Smaller Companies Investment Trust	**3,866,936**	**1.46**	3,889,870	1.47
Akbar Brothers (Pvt) Ltd. A/c No. 1	**2,578,688**	**0.97**	2,552,270	0.96
Cargo Boat Development Company PLC	**2,498,200**	**0.94**	2,498,200	0.94
Anverally International (Pvt) Ltd.	**1,579,345**	**0.60**	1,553,415	0.59
Crescent Launderers & Dry Cleaners (Pvt) Ltd.	**1,482,548**	**0.56**	1,482,548	0.56
HSBC Intl. Nominees Ltd. – BP2S London-Aberdeen New Dawn Investment Trust XCC6	**1,450,311**	**0.55**	1,458,914	0.55
Renuka Consultants & Services Ltd.	**1,097,992**	**0.41**	1,097,992	0.41
Total of the 20 major shareholders	**234,635,882**	**88.50**		
Other shareholders	**30,461,806**	**11.50**		
Total	**265,097,688**	**100.00**		

Return to shareholders – Bank

Description	2018	2017
Profit for the year (LKR million)	2,768	4,415
Return on total assets (%)*	0.80	1.48
Net assets per share (LKR)	165.40	180.60
Earnings per share (LKR)	10.44	16.65
Dividend per share (LKR)	3.50	5.0

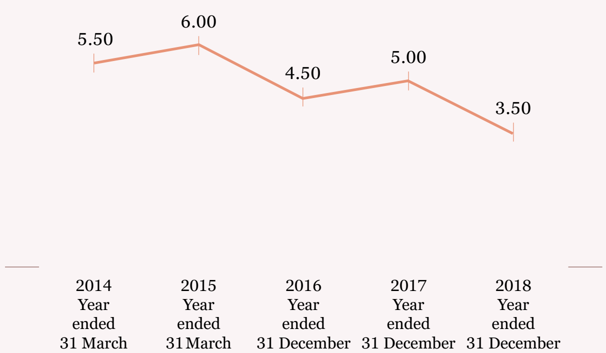
** After eliminating fair value reserve*

Financial return

The Bank aims to regularly provide high total shareholder returns through profitable and sustainable performance. The Directors approved a first and final dividend of LKR 3.50 per share for the year ended 31 December 2018. Dividends are based on growth in profits, while taking into account future cash requirements and the maintenance of prudent ratios.

Bank's dividend per share

LKR

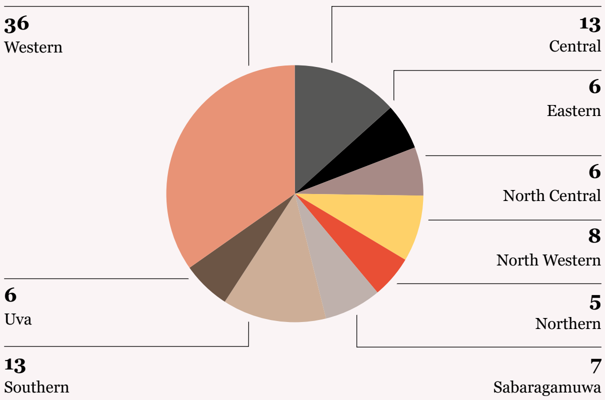


Customer Capital

Customer profile

The Bank's branch network continued to expand with a focus on the Southern and Western Provinces. Resultantly, an increase in the customer base was seen in these provinces.

Customer profile
%



The DFCC Group

The Bank's primary lines of business are complemented by the Bank's subsidiaries.

DFCC Consulting	NDSL	SYNAPSYS
Consultancy	Industrial estate management	Information technology services

ACUITY	namal
Investment banking	Licensed unit trust and investment management

Our Portfolio

Primary lines of business

- Corporate Banking
- Consumer Banking
- Branch, SME and MSME Banking
- Premier Banking
- Treasury
- Business Banking
- International Banking

Credit line/Subsidy scheme supported project loans

Saubhagya
for Small and Medium Enterprises (SMEs)

SMILE III Revolving Fund
for SMEs

Small and Medium Sized Enterprises Line of Credit (SMELoC)
for SMEs

Swashakthi (Micro and Small Enterprises Development Loan Scheme)
for Micro and Small Enterprises

Loan Scheme for Resumption of Economic Activities affected by Disasters (READ)
for small-scale businesses affected by a disaster

E-friends II Revolving Fund
for pollution reduction and efficiencies improvements

Smallholder Agribusiness Partnership Programme (SAPP)
for agriculture smallholders

Rooftop Solar Power Generation Line of Credit (RSPGLoC)
for rooftop solar systems of up to 50 kW

New Comprehensive Rural Credit Scheme (NCRCS)
for short-term cultivation

Loans scheme under "Enterprise Sri Lanka"

Jaya Isura

for SMEs

Ran Aswenna

for small scale farmers and Agro and Fish processing

Govi Nawodaya

for small scale farmers

Rivi Bala Savi

for small scale household rooftop solar

Green Loan

for small scale producers of biodegradable products; and small scale "home stay" tourism owners

Other project loans

Term loans

for corporates, SMEs, professionals and individuals

DFCC credit card

The only Credit Card that offers 1% Cashback on every swipe

for corporates, self-employed individuals, professionals and salaried individuals

Working capital financing

Short-term working capital financing – overdrafts, revolving credit or short-term working capital loans

for corporates, SMEs, entrepreneurs and current account holders

Medium, long-term loans to finance permanent working capital requirements

for corporates, SMEs and entrepreneurs

Vardhana Sahaya

A one-stop financial solution offering loans, leases, bank guarantees and other commercial facilities

for MSMEs

Leasing facilities

"Easy Leasing" facilities for brand new and unregistered/registered vehicles, machinery, plant and equipment

for corporates, SMEs, entrepreneurs, professionals and individuals

Hire purchase facilities

Hire purchase facilities for vehicles

for corporates, SMEs, entrepreneurs, professionals and individuals

Guarantee facilities

Bid bonds, advance payment bonds, performance bonds, bank guarantees for credit purchase of goods

for corporates, SMEs, entrepreneurs, professionals and individuals

Time deposits

A wide range of tailor-made time deposit products at competitive interest rates

for corporates, SMEs and individuals

Loan syndication

Loans provided by a group of lenders which is structured, arranged and administered by one or several banks

for corporates

Consultancy and advisory services

Provision of legal, tax, finance, market and other advisory services to start up a new business or revamp existing businesses

for corporates, SMEs and entrepreneurs

Savings facilities

Supreme *Vaasi* – Offers a superior rate of interest

for businesses and individuals aged 18 years and above

Mega Bonus – Interest rates grow in tandem with the savings deposits

for businesses and individuals aged 18 years and above

Xtreme Saver – Offers the highest interest rate for Rupee and Dollar denominated savings based on the account balance

for businesses and individuals aged 18 years and above

DFCC Junior – Children's savings account offering a range of gifts and support for higher education

for children below 18 years of age

DFCC Junior Plus – Children's savings account with a higher interest rate

for children below 18 years of age

DFCC *Garusaru* – Offers an attractive interest rate with a range of other benefits

for senior citizens above 55 years of age

Personal loans

Loans that help meet personal financing requirements

for salaried employees and professionals, and salaried individuals

Pawning services

***Ranwarama* Pawning – Gold-pledged advances**

for the mass market/ individuals

Housing loans

DFCC Home Loans – Flexible and convenient housing loans at affordable rates

for self-employed individuals, professionals and salaried individuals

Education loans

DFCC *Nenasa* – Flexible and convenient loan facilities for higher education

for individuals pursuing higher studies

Digital products

DFCC Virtual Wallet
DFCC iConnect
Mteller
Premier Go
eStatements
SMS alerts
Internet banking

for corporates, SMEs, entrepreneurs, professionals and individuals

Bancassurance

for corporates, SMEs, entrepreneurs, professionals and individuals

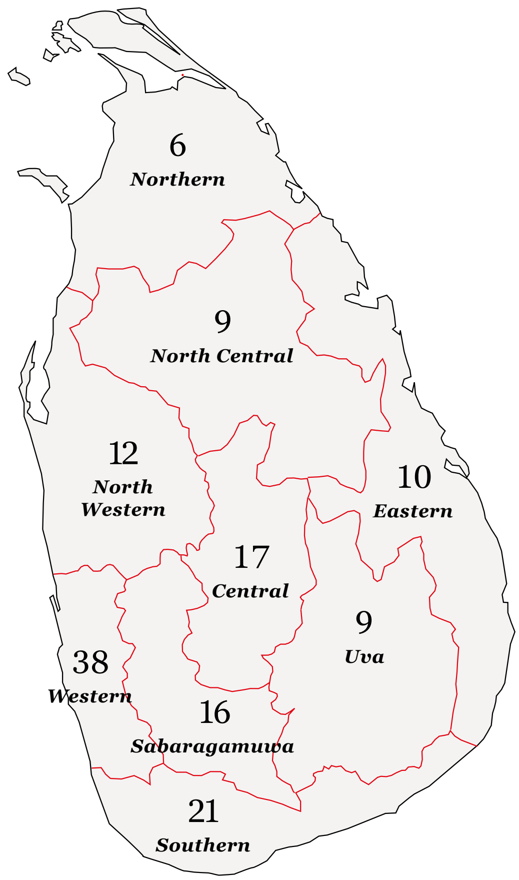
Other services

Includes current accounts, overdraft facilities, foreign currency accounts, international trade services, off-shore banking, international payments, foreign money transfer via Western Union/Lanka Money Transfer and local payments.

for the business community, entrepreneurs, professionals and individuals

Branch network and service delivery

The Bank expanded its branch network in 2018 by converting 10 extension offices (Sri Lanka Post Banking Units) into fully-fledged branches. The Bank expanded its presence in busy commercial centres with the opening of branches in Nivithigala, Urubokka, Buttala, Wellawaya, Eppawela, Marawila, Mawanella, Ruwanwella, Godakawela and Mahiyanganaya. Customers also have access to the Bank's services through over 3,800 ATMs across the island. The Bank embraces technology in expanding its reach to customers outside of the traditional brick and mortar via Internet and mobile banking services. Customers also have access to the Bank through its 24/7 Call Centre and the Bank's website.



Scan to view the details of the Branch Network
http://dfcc2018.annualreports.lk/bn.html

New product and service innovations

Launch of revamped DFCC credit cards

DFCC Bank relaunched its Credit Card range in March 2018. The range of cards offers 1% Cashback on every swipe, a first in the banking sector in Sri Lanka. The cards, which include the Gold, Platinum, Signature, and DFCC Premier Visa Infinite Credit Cards, feature a sleek new look and are enabled with Visa payWave contactless technology and an EMV chip.

Cardholders are offered 0% instalment plans, flexi plans, interest-free credit up to 51 days, access to cash advances through any ATM network locally and internationally, supplementary cards for immediate family members, settlements through DFCC online payments or through DFCC Virtual Wallet, 24x7 transaction monitoring by DFCC, and free SMS alerts.

DFCC Visa Signature and Visa Infinite cardholders receive additional special benefits when they travel, including free travel insurance from Allianz Insurance when air tickets are purchased with the DFCC Credit Card, free access to over 1,000 airport lounges worldwide, and exclusive Visa offers at partner merchants worldwide.

Launch of DFCC iConnect

DFCC iConnect is a state-of-the-art online banking platform that provides business clients with a robust system for effective payments and collection, significantly reducing operational pressure, minimising risk, and optimising efficiency and productivity. The platform was launched with the objective of assisting business clients in building more competitive, efficient, and global businesses.

The system operates on an intelligent identification model that keeps track of all activities performed at a user level, enabling businesses to have improved visibility over their cash flow. Clients can access their account transaction information from anywhere in the world and view account balances in real time, perform local/cross border payments, and choose the best collection mode at the click of a button. The system can be fully integrated into a client's Enterprise Resource Planning (ERP) system through a fully-fledged secured direct Host-to-Host (H2H) channel where encrypted payment instructions can be pulled automatically onto the DFCC iConnect platform, thus increasing productivity for the client.

Customers can also use the DFCC iConnect mobile app to stay connected to their finances anywhere in the world at anytime, offering total control over financial connectivity with the assurance of maximum security.

Towards a leaner future

The Service Quality team together with IT and PFS central processing was dedicated throughout the year towards implementing a workflow system to handle applications for personal loan facilities. The PFS credit appraisal process has been heavily streamlined, thereby making DFCC Bank a more formidable contender in the market for personal financial services in 2019.

As a Bank that lives by its values, DFCC Bank took a giant step towards creating a more customer centric environment in 2018 with the expansion of the Service Quality team to include Lean Management. The team is devoted to a singular major vision: reducing overall customer waiting time by 20% by the end of 2019 through the institutionalisation of lean thinking and techniques. The team embarked on this journey towards the vision with an in-depth study of the end-to-end processes for cash-backed facilities, leasing, and personal loans to identify wasteful activities that can be eliminated and increase the efficiency of processes which will help in creating memorable experiences for customers.

Product responsibility

Customers are increasingly becoming tech-savvy and expect to be well-informed before committing to purchases and services. Consumers use social media and other online resources to broadcast their experiences and satisfaction, or lack thereof, to broad audiences, which can impact the Bank's business and reputation. Therefore, transparency and clarity in product labelling is a responsibility of the Bank.

DFCC Bank takes this responsibility seriously by providing transparent and relevant information to its customers. Information about products and services are available in all three languages and employees are available to provide more information where necessary. The Bank also conducts events across the country to educate current and potential customers about its products and services.

Focus on social responsibility

DFCC Bank continued to support the communities it is a part of during 2018 through various initiatives in line with its strategic CSR pillars. Read more in the Social and Environment Capital section on page 66.

Customer privacy

DFCC Bank makes every effort to protect the privacy of its customers, which it recognises as fundamental to building trust and developing the relationship between itself and its customers. The Bank utilises secure systems and procedures to reinforce banking transactions and continuously develops and upgrades these systems. Customer privacy is an integral part of the Employee Code of Conduct, ensuring that employees understand the importance of protecting the privacy of their customers and play their part in upholding the secure systems and procedures of the Bank.

Customer satisfaction and complaint handling

The Bank reaches its customers through an extensive network of touch points ranging from conventional brick and mortar to Internet and mobile centric digital banking solutions that include DFCC Virtual Wallet, Premier Go and DFCC iConnect. Keeping up with ever changing customer aspirations and preferences is a fundamental reason for the Bank using cutting-edge banking technology to reach the customer, and while many customers prefer to bank via conventional means for the human touch, upcoming generations of customers demand a contextual banking experience. In light of this, the Bank will continue to come up with innovative means of expanding its reach.

Marketing communications

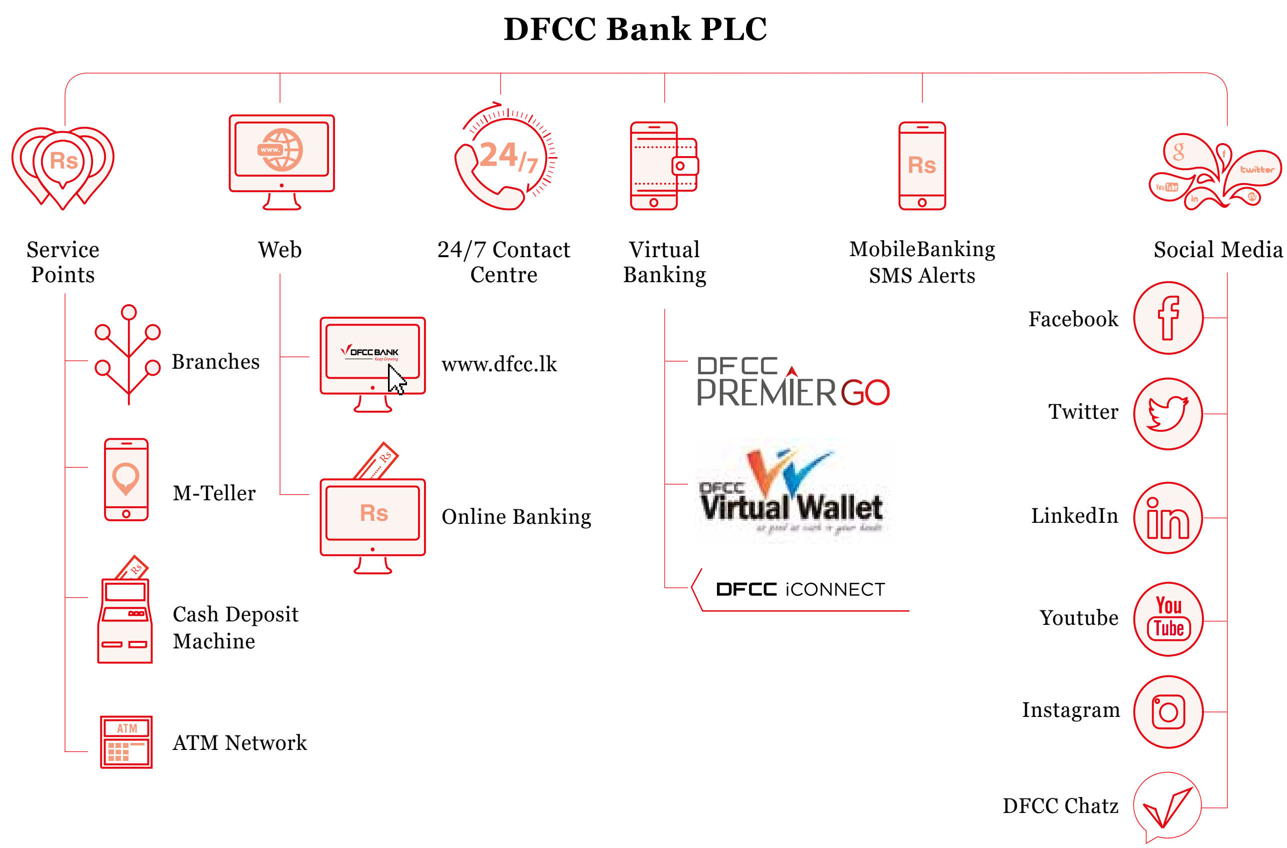
The Bank engages with customers and potential customers over multiple channels in English, Sinhala and Tamil. A Board-approved Corporate Communications Policy and Social Media Policy defines how the Bank engages with customers and the Bank works to ensure that its information is accurate and complies with the policies, the Central Bank of Sri Lanka and the Bank's Customer Charter.

The Bank carried out various brand-building initiatives during 2018 such as marketing and seasonal campaigns, event sponsorships, and customer engagement activities. Further details can be found in other sections of this Report.

Call centre operations

As the first contact point for customers who call the Bank, the Call Centre provides an important service at the Bank and operates under the Payments and Digital Channels department. The Call Centre conducts inbound and outbound functions 24 hours, seven days a week to ensure the smooth functioning of the Bank's operations.

Multi channel customer touch points



Handling product queries and activations

Call Centre staff members are trained and coached on all DFCC Bank products and are briefed on whenever a new product or system is launched. A comprehensive customer validation methodology has been adopted and applied before any information is provided to customers.

Inbound calls

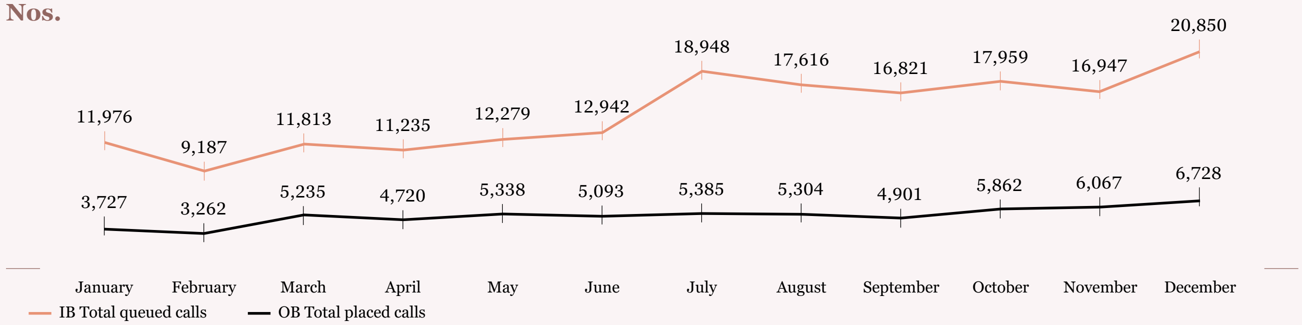
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total queued calls	11,976	9,187	11,813	11,235	12,279	12,942	18,948	17,616	16,821	17,959	16,947	20,850
Average answered calls per day	365	397	365	365	386	416	588	548	539	555	540	645
Average talk time (Sec)	120	119	126	121	120	118	112	115	112	114	109	101

Outbound calls

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total calls placed	3,727	3,262	5,235	4,720	5,338	5,093	5,385	5,304	4,901	5,862	6,067	6,728
Average calls placed per day (week days)	186	181	262	262	254	268	256	241	258	266	319	336
Average talk time (Sec)	130	239	118	104	58	57	109	115	113	59	117	92

Trend of calls 2018

Nos.



New product and service enhancements introduced by DFCC Bank

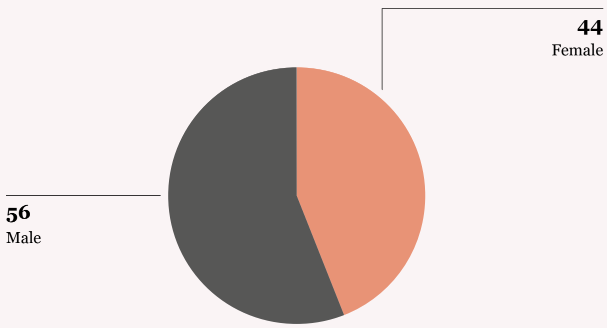
- **Relaunch of DFCC credit cards** with EMV enabled chip and Visa payWave contactless technology
- **DFCC iConnect,** a cutting-edge Payments Solution for businesses
- Further value enhancements to the **DFCC Virtual Wallet**
- New value propositions for **DFCC Leasing and DFCC Home Loan products**

DFCC Bank aligns itself to its customers' aspirations with innovative products and services that address and exceed their requirements and expectations through the use of the latest technology and its expertise.

Employee Capital

DFCC Bank's Human Capital base grew by 5.1% in 2018 to 1,860. The growth was due to requirements in new business areas such as MSME, cards, and payments and cash management. Rapid growth in the retail business segment also required increased resources in sales and processing areas. Gender distribution remained at 56:44 (male to female) and age distribution saw 48.2% of employees under 30 years of age.

Staff distribution by gender

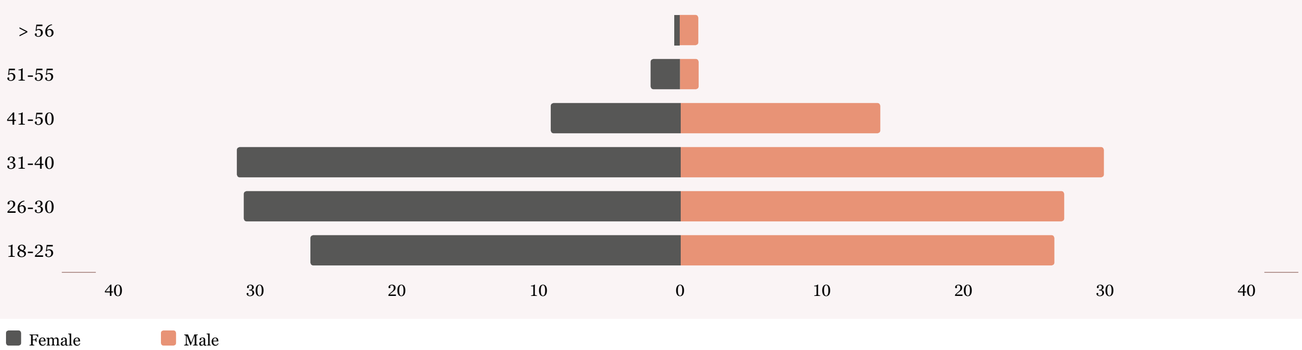


New hires by province

Province	Total
Central	16
Eastern	12
Northern	5
North-Central	11
North-Western	10
Sabaragamuwa	26
Southern	26
Uva	14
Western	173
Total	293

**Staff rejoining after retirement have been excluded*

Age pyramid



The Western Province continued to account for the largest number of employees, which was 56.8% of the Human Capital base. The Southern and Central Provinces accounted for 9.6% and 7.8% of the Human Capital base respectively.

Total workforce by region and gender

Province/Departments and other business units	2018 December		Number of employees		
	Number of branches	Number of SLP units	Male	Female	Total
Central	13	2	95	50	145
Eastern	8	2	54	19	73
Northern	6	0	36	23	59
North-Central	7	2	57	24	81
North-Western	10	1	55	44	99
Sabaragamuwa	11	4	62	38	100
Southern	16	7	110	69	179
Uva	7	2	48	19	67
Western	33	7	209	194	403
Total	**111**	**27**	**726**	**480**	**1,206**

	Number of units	Male	Female	Total
Departments and other business units	80	308	346	654

Happiness and well-being

As part of efforts to maintain the health and well-being of the Bank's employees, many new initiatives were implemented to encourage and provide staff with the means to do so during the year under review. Initiatives included the provision of subsidised and discounted health screening packages for employees and their families, discounted access to online health advisory services, health camps, varied fitness programmes such as yoga, zumba, hikes, intensive boot camps, and pedometer challenges.

In keeping with the Bank's core values of social responsibility, employees were provided with opportunities throughout the year to contribute to the wider community through initiatives such as an annual blood drive, a sustainable living programme in outstation schools, donation of specialised medicines to the bone marrow transplant unit of the Maharagama *Apeksha* Hospital, tree planting programmes island-wide and an HIV assistance programme, amongst others.

The DFCC Talent Show, held at the *Nelum Pokuna*, was revived in 2018 after an 11-year hiatus. The event was incredibly successful with over 1,100 people attending the show to witness the showcasing of home-grown talent.

Other engagements on the Bank's social calendar included activities to celebrate Women's Day, the International Day of the Girl Child, World Mental Health Day, Cancer Awareness Month, as well as more festive celebrations such as Vesak and Halloween which saw competitions for department decorations. Highlights of the year included a subsidised three-day trip to Bali, the Dinner Dance, an *Avurudu Pola*, Halloween and Christmas parties, Christmas carols, *Bakthi Gee*, and Sports Day. Additionally, the DFCC REDS, a group representing the young executives of the Bank, conducted a series of events in 2018 targeted at engaging the Bank's millennial employees who make up 58% of the workforce.

Parental leave

Female employees at DFCC Bank are entitled to parental leave.

Indicator	Male	Female	Total
Number of employees entitled to parental leave during the previous reporting period (2017)	n/a	779	779
Number of employees who took parental leave and due to return in 2018	n/a	54	54
Number of employees who returned to work after parental leave in 2018	n/a	53	53
Employees who returned to work out of those due to return during 2018	n/a	98%	98%
Number of employees due to return to work after parental leave in 2017	n/a	58	58
Number of employees who returned to work after parental leave in 2017	n/a	56	56
Employees who returned to work out of those due to return in 2017	n/a	97%	97%
Number of employees who returned to work after parental leave in 2017, who were still employed 12 months after return to work	n/a	54	54
Retention rate	n/a	93%	93%

Avenues for communication

Constant communications were held with employees around the year focusing on acceptable and encouraged workplace behaviour. Classroom sessions on leading by example and inculcating professional and ethical behaviours amongst subordinates were conducted for supervisors. Furthermore, multiple mechanisms are in place for employees to raise concerns.

A Grievance Committee, made up of cross-functional employees, is accessible by all employees for raising concerns. In 2018, the Committee was broad-based to increase junior level representation. The "Reach Out" programme continued to provide support for female employees, enabling them to raise professional or personal difficulties and seek advice. Senior Management was also encouraged to interact with their indirect subordinates in one-on-one "skip level" sessions to provide an avenue for junior employees to raise ideas and concerns. Moreover, the Bank practices an open-door policy which facilitates all employees having easy and direct access to Management at all levels, including the CEO. Dedicated and confidential phone lines are in place for employees to directly get in touch with the Chairman and CEO for whistleblowing or conveying their grievances. Periodic "open days" are also organised for the same purpose. The Human Resources Department conducted initiatives throughout the year, including the Business Partner programme, and regular branch visits for one-on-one engagement with employees.

In 2018, six incidents were reported under the "Reach Out" programme and 19 to the Grievance Committee. All incidents were investigated, addressed, and officially closed.

Learning and growth

DFCC Bank continues to invest time and resources in the professional and personal development of its staff, providing them with the relevant knowledge, competencies, skills, and exposure that can help them unleash their potential.

The Bank's annual training plan, formulated through feedback from development plans, focus group discussions and inputs from business heads, encompassed a variety of technical and soft skills programmes as well as regulatory-focused skilling opportunities. Employees were also able to take advantage of individually targeted training and coaching opportunities, job rotations, special projects and enrichment opportunities, based on their individual development and advancement requirements.

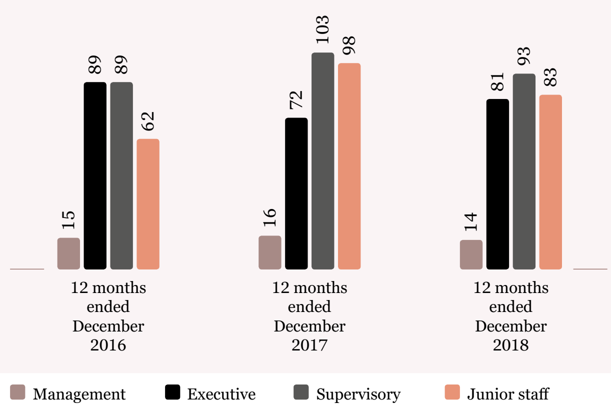
In 2018, 6,794 participants attended 425 programmes. 175 of these programmes were organised in-house utilising both internal and external resource persons. A total of 73,040 learning hours were accumulated during the year. The e-learning platform proved to be a popular learning tool amongst the Bank's regionally dispersed workforce, with 11,655 participants recording 16,396 learning hours during the year. 90% of respondents in an annual survey rated the platform as "very satisfactory".

Multiple career development programmes are in place that target individuals at different stages of career progression. The "Ascension" programme focuses on preparing high-potential employees to take on higher level roles and had 45 participants during the year; five participants successfully went on to take on higher job responsibilities. The "Rise" programme focuses on individuals who are facing performance difficulties and had 18 participants undergoing varied development measures. A programme is also in place to assist and monitor the performance of junior level employees who have changed job roles to ensure that assistance is available to them as they adapt to their new functions. 25 participants are currently participating in this programme and 18 participants have successfully exited the programme after reaching expected competency levels.

Resourcing

The employee base grew by 293 in 2018 due to the continued expansion of the branch network and introduction of new business offerings and services. 72.4% of new recruits were for junior level positions. The Bank aims to promote staff internally to management level positions, however, seven management level recruitments were done during the year for positions where internal skills were not available. 61.4% of new hires were sourced for expansion of the branch network, with 10 new branches being opened during the year.

Number of staff promoted to higher levels
Nos.



New hires by age group and gender

Grade	New employees joining in the current financial year						
	Age group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	6	1	7	6	1	7
Executive	15	37	1	53	42	11	53
Supervisory staff	9	12	0	21	14	7	21
Junior staff	204	7	1	212	118	94	212
Total	**228**	**62**	**3**	**293**	**180**	**113**	**293**

**Staff rejoining after retirement have been excluded*

Many external engagements were conducted during the year as part of efforts to highlight the Bank's brand as an employer of choice. The Bank participated in career fairs, held walk-in interview programmes, engagements and presentations at schools and universities, and offered undergraduate and school leaver internship programmes as well as a structured Advanced Level Scholarship Scheme.

103 permanent employees voluntarily resigned from the Bank during the year; 37.9% of whom were junior staff. The Operations Risk Management Committee reviews attrition data on a quarterly basis, and feedback obtained from exit interviews with departing staff members is given to supervisors and remedial action taken, if necessary. Some of the main reasons for exits during 2018 were migration and career progression.

Turnover

Grade	Number of employees who resigned*						
	Age group				Gender		
	Less than 30 years	Between 30-50 years	Above 50 years	Total	Male	Female	Total
Management	0	4	0	4	4	0	4
Executive	10	36	0	46	35	11	46
Supervisory staff	7	7	0	14	9	5	14
Junior staff	33	6	0	39	23	16	39
Total	**50**	**53**	**0**	**103**	**71**	**32**	**103**

** Permanent employees, excluding terminations/retirements/contract expiries*

Retention

	2018			
	Total new recruits	Employees that left	Retained	Retention %
Management	7	1	6	86
Executive	52	3	49	94
Supervisor	21	0	21	100
Junior staff	211	24	187	89
Total	**291**	**28**	**263**	**90**

**Excludes contract expiries and terminations*

Appreciation and rewards

DFCC Bank considers recognition and appreciation to be pivotal in engaging and motivating employees. Multiple initiatives were conducted during the year, including the Annual Awards Night held at the Hilton Colombo Residencies, which recognises high achievers in various fields, and an awards ceremony during the Bank's Annual Dinner Dance. A sales convention was held in Negombo in April and was attended by 127 members of the Bank's sales force from across the island, where they actively engaged with each other and shared ideas. The "Leaders Club" was a new initiative introduced during the year, where high achievers in the sales field were recognised. Those from the salesforce who exceeded their targets by 200% enter the club and receive an elite badge along with special recognition and development opportunities. 2018 saw 21 employees receiving entry into the club.

The "Rewarding Excellence" programmes and other regional and department employee appreciation schemes are held to ensure that employee achievements are recognised and appreciated. An annual budget is provided to every department and branch to assist with team building activities, and they are encouraged to appoint a social director within their units to drive and organise unit level celebrations and social activities. This resulted in more employee social interaction and an integrated team culture.

Benefits provided to full-time employees

Employment type	Housing loan	Vehicle loan*	Exam*	Professional subscription*	Social club gymnasium*	Miscellaneous/ staff loan	Festival advance**	MBA loan	Holiday grant***
Permanent	√	√	√	√	√	√	√	√	√
Contract	x	x	x	x	x	x	x	x	x

** Executive Trainees and Management Trainees on fixed term contracts will also be provided*

*** Only for NOn-Executive staff*

**** Based on the offer of employment, may also be provided to contract staff*

Business Partner Capital

Multilateral and bilateral institutions

DFCC Bank has a long history of building and nurturing strong relationships with various multilateral and bilateral institutions that share similar goals, including business partners such as:

- The World Bank
- European Investment Bank (EIB)
- Asian Development Bank (ADB)
- Kreditanstalt fur Wiederaufbau (KfW) – Germany
- Deutsche Investitions-und Entwicklungsgesellschaft (DEG), a subsidiary of KfW – Germany
- Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V. (FMO) – The Netherlands
- Proparco, a subsidiary of Agence Française de Développement (AFD) – France
- RAKBANK, also known as the National Bank of Ras Al Khaimah – United Arab Emirates
- BlueOrchard Microfinance Fund – Luxembourg

In these partnerships, DFCC Bank's primary roles include serving as an effective credit institution for on-lending funds to end users, acting as the project manager in implementing credit programmes, administering grant funds, and paving the path for market development and capacity building.

In 2018, DFCC Bank was granted a long-term loan of USD 35 Mn by Asian Development Bank (ADB). ADB, established in 1966, is an organisation committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. With the Micro, Small and Medium Enterprise (MSME) sector being a vital part of the Sri Lankan economy, this credit line has helped the Bank continue its ongoing mission to nurture small and medium businesses to scale up at a crucial time in the country's economic growth.

During 2018, DFCC Bank was also selected as one of the 10 Participating Financial Institutions (PFI) of two more credit lines which were offered through the Government of Sri Lanka (GoSL) by ADB. The first credit line was for an additional line of credit of USD 75 Mn for the Small and Medium Enterprise (SME) sector, and the second credit line was for USD 50 Mn for Rooftop Solar Power Generation.

The Treasury and Resource Mobilisation Unit continues to build upon the relationships the Bank has established over time by actively engaging with partner institutions to secure potential funding lines to support the Bank's rapid growth.

Correspondent banks

DFCC Bank maintains relations with over 250 correspondent banks around the world including some of the world's largest financial institutions. During the year under review, the Bank entered into a relationship with the Bank of New Zealand and opened a New Zealand Dollar (NZD) account to facilitate customer transactions. The Bank was also able to establish a new interbank limit with May Bank, Malaysia.

The following banks also visited DFCC Bank during the year to strengthen their relationship:

- ADB
- Axis Bank
- Caixa Bank
- Citi Bank
- Commerzbank
- DNB
- Doha Bank
- Habib Bank AG Zurich
- HDFC Bank
- ICICI Bank
- JP Morgan Chase Bank
- Landesbank Baden
- Landesbank Heseen
- Mashreq Bank
- Standard Chartered Bank
- Union de Banques Arabes et Françaises S.A.
- Zurcher Kantonalbank

The following entities act as the Bank's Nostro agents in the respective countries.

Bank	Currency	Country
Bank of Ceylon (UK) Limited	GBP	United Kingdom
Bank of Ceylon	ACU $	India
Bank of Ceylon	ACU $	Maldives
Bank of China	CNY	China
Bank of New Zealand	NZD	New Zealand
Commerzbank AG	CAD	Germany
Commerzbank AG	EUR	Germany
Deutsche Bank Trust Company Americas	USD	United States of America
HDFC Bank	ACU $	India
HSBC Bank USA N.A.	USD	United States of America
Kookmin Bank	USD	South Korea
Mashreqbank PSC	ACU $	India
Mashreqbank PSC	AED	United Arab Emirates
Mashreqbank PSC	USD	United States of America
Standard Chartered Bank (Pakistan) Limited	ACU $	Pakistan
Standard Chartered Bank	ACU $	Bangladesh
Standard Chartered Bank	ACU $	India
Standard Chartered Bank	AUD	Singapore
Standard Chartered Bank	EUR	Germany
Standard Chartered Bank	GBP	United Kingdom
Standard Chartered Bank	SGD	Singapore
Standard Chartered Bank	USD	United States of America
Sumitomo Mitsui Banking Corporation	JPY	Japan
Uni Credit Bank AG	EUR	Germany
Zurcher Kantonalbank	CHF	Switzerland

The supply chain management and procurement Policy

The Procurement Policy of the Bank clearly defines how goods and services are fairly and transparently procured by authorised staff, whilst ensuring that the selection of suppliers and the acquisition of goods and services is done in a non-discriminatory and economically sound manner.

A Procurement Committee (PC) led by an Executive Vice-President acts as a control measure for the procurement function of the Bank. Major IT-related procurements are submitted to an IT Steering Committee (ITSC) and referred for PC approval upon the recommendation of the ITSC. Other general procurements are either submitted to the PC for approval or to higher approving authorities upon the recommendation of the PC. Independent parties may review large value and/or specialised procurements, if required.

Suppliers of goods and services are required to register themselves with the approval of the PC, and registered suppliers are subject to review once every two years. Suppliers undergo a rigorous evaluation process to determine quality, delivery time, pricing, after sales support, technical proficiency, and references. The Bank prefers to source its requirements from local suppliers as part of its commitment to helping local communities and businesses flourish. Suppliers may also opt to receive financial advice and assistance from the Bank.

Partners for service delivery

DFCC Bank partners with a variety of reputable vendors for various services such as:

- Cash collection, counting, storage, delivery, and transport of security goods
- Printing services including printing of account and credit card statements, cheque books, etc.
- Processing of payroll and other reimbursements
- Personalisation and delivery of chip-based credit cards
- Internal audit functions
- IT support
- Help desk problem management

The Bank also partners with over 1,500 merchants who are a part of the DFCC Virtual Wallet network.

Industry initiatives

DFCC Virtual Wallet

The first of its kind in Sri Lanka's banking industry upon its launch in 2016; the DFCC Virtual Wallet is an innovative mobile payment solution that has been steadfastly growing and is currently being used by over 30,000 customers and over 1,500 merchants.

The year saw a gamut of promotions and deals being offered for customers across various segments. In addition, customers have embraced the DFCC Virtual Wallet as a lifestyle app using it to settle utility bills, insurance payments, credit card payments and check balances on a regular basis.

This innovative product is constantly evolving with the Bank adding novel features to it on a regular basis. The following functions were added to the DFCC Virtual Wallet during the year:

- Ability to transfer funds to non-customers further enhancing convenience
- The ability to perform customer registrations on the DFCC website via the "Apply now" function.
- The launch of DFCC Chatz, a Facebook chatbot that can interact with customers and merchants to provide instant feedback and information pertinent to DFCC Virtual Wallet.

Gifting of virtual cards to loved ones and withdrawal of Wallet funds through DFCC ATMs are significant stepping stones in the virtual journey that will be made prominent more so next year.

Lanka Money Transfer

A cutting-edge remittance system that enables instant remittances to DFCC Bank accounts and any LMT Partner Bank/Financial Institutions via a secure network. The service was upgraded in 2017 to enable remittances to be delivered to the DFCC Virtual Wallet.

Premier Go

The first premier banking app in the industry launched in November 2017 exclusively for DFCC Bank's premier customers. The app provides premier customers with secure access to their account and transaction information, as well as direct access to their dedicated Relationship Manager via Video Conferencing.

Relaunch of DFCC Credit Cards

DFCC Bank relaunched its range of credit cards in March 2018, offering 1% CashBack on every swipe – a first for Sri Lanka. Gold, Platinum, Signature, and DFCC Premier Visa Infinite Credit Cards feature a sleek new look and are enabled with Visa payWave contactless technology and an EMV chip, a feature that other banks offer only on selected cards.

Tea Integrated Payment System

In collaboration with Synapsys, the Bank introduced Tea Integrated Payment and Supplychain (TIPS), an AgriFintech platform initially aimed at the tea industry. Workers in the tea industry can take advantage of features such as mobile harvest collection through identification of the supplier/worker using an NFC card, RFID tags for food traceability, accurate weighing with Bluetooth-enabled weighing scale, SMS alerts to farmers. Available funds are updated in real-time, while cash is available from ATMs and along with better access to credit.

The TIPS solution is already implemented across multiple factories in Ratnapura and Galle Districts and is receiving high demand from small, medium, and large-scale factories locally and internationally.

DFCC iConnect

DFCC iConnect is a state-of-the-art fully integrated payments and cash management system. This integrated digital solution offers business customers at any level, the ease of automating their day-to-day, transnational banking needs. By using DFCC iConnect, business clients can route payments both locally and internationally at the click of a button. More significantly, they can make use of all the DFCC iConnect benefits via a mobile app that can be downloaded to any smart phone/ tablet enabling users to be in control "on the go". The app is biometrics-enabled to ensure 100% security. By pioneering such beneficial digital solutions, DFCC Bank demonstrates its focus on extending convenience and speed to customers by harnessing technology.

DFCC iConnect provides an Integrated Payments Solution, Integrated Collection Solution, Integrated Connectivity and Authorisation Solution, Integrated Liquidity Solution and Integrated Reporting and Reconciliation Solution. Furthermore, all payments (including company cheques/SLIPS/CEFT/RTGS/TT) can be authorised on the mobile app. The app also allows customer to view their account balances at any time on real time information.

Cross Currency SWAP

The Bank successfully completed a Cross Currency SWAP transaction worth USD 30 Mn with the Sri Lankan branch of a foreign bank. The derivative-based transaction took place in March 2018 and enabled DFCC Bank to generate Rupees at competitive rates while hedging the interest rate and foreign exchange rate risk exposures of a borrowing of USD 30 Mn from a foreign lender.

Strategic alliances

DFCC Bank is diversified into several entities; the DFCC Group provides a range of services to the financial sector through the following subsidiaries:

- DFCC Consulting (Pvt) Limited
- Lanka Industrial Estates Limited
- Synapsys Limited
- Acuity Partners (Pvt) Limited (Joint venture)
- National Asset Management Limited (Associate company)

DFCC Consulting (Pvt) Limited

DFCC Consulting (Pvt) Limited was established in 2004 and is a fully-owned subsidiary that engages in project consultancy and related fields. Through a shared resources model, DFCC Consulting draws upon a resource pool of nearly 600 executive staff from DFCC Bank and a pool of reputed external experts from various fields.

The Company supports DFCC Bank through its expertise in the fields of environment, engineering, and renewable energy and carries out international consultancy assignments, sometimes in partnership with overseas consulting firms.

During the year, DFCC Consulting entered into a two-year contract with the Asian Development Bank (ADB) to act as the Project Implementation Unit for the Rooftop Solar Power Generation Line of Credit extended by the ADB to the Government of Sri Lanka. This contract was secured by the Company subsequent to competing with several reputed international firms.

Lanka Industrial Estates Limited

Lanka Industrial Estates Limited (LINDEL) occupies a strategic location in Sapugaskanda on 125 acres of land, near the Colombo Harbour and Bandaranaike International Airport. The industrial estate offers land and buildings for lease, and the infrastructure for setting up industries. 95% of the leasable land has been let to industries, with 20 production facilities currently operating at the premises, six of which are owned by Fortune 500 Companies.

Synapsys Limited

Synapsys Limited was established in 2006 and is a fully-owned subsidiary of DFCC Bank that provides software development, MIS solutions, and IT support to DFCC Bank and other customers. With an array of innovative products and services that include two flagship and NBQSA award-winning platforms, the Company supports banks, capital markets, insurance, and retail payments across Asia and the Pacific region.

Memberships in industry associations

DFCC Bank has acquired membership and established alliances with various industry associations and organisations that enable networking opportunities and contribution to industry standards. Associations include:

- American Chamber of Commerce in Sri Lanka
- Association of Board/Company Secretaries of Banks
- Association of Compliance Officers of Banks Sri Lanka
- Association of Development Financing Institutions in Asia and the Pacific
- Banks' CIO Forum
- BNI Inspire Charter-Colombo Sri Lanka
- Central Bank of Sri Lanka
- Chamber of Construction Industry Sri Lanka
- Chartered Institute of Management Accountants
- Colombo Stock Exchange
- Fitch Ratings Lanka Ltd.
- Genesiis Software (Pvt) Ltd.
- Lanka Clear (Pvt) Ltd.
- Lanka Fruit and Vegetable Producers, Processors and Exporters Association
- Lanka Swift User Group
- Leasing Council of Bankers of Sri Lanka
- Mary Martin Book Sellers Pte Ltd.
- Payment Card Industry Association of Sri Lanka
- Reed Business Information Ltd.
- Securities and Exchange Commission of Sri Lanka
- Sri Lanka Forex Association
- The Association of Banking Sector Risk Professionals of Sri Lanka
- The Ceylon Chamber of Commerce
- The Ceylon National Chamber of Industries
- The Employers' Federation of Ceylon
- The European Chamber of Commerce of Sri Lanka
- The Financial Ombudsman Sri Lanka (Guarantee) Limited
- The Institute of Bankers of Sri Lanka
- The Institute of Chartered Accountants of Sri Lanka
- The Mercantile Service Provident Society
- The National Chamber of Commerce of Sri Lanka
- The Sri Lanka Banks' Association (Guarantee) Limited

Sustainability initiatives done by DFCC Bank

- Conducted 20 ***Sahaya Hamuwa*** entrepreneur development programmes across the island.
- Expanded the ***Samata English*** education programme for youth, to other parts of the country
- Held 19 **tree planting campaigns** across 11 districts
- Assisted those affected by natural disasters during the year providing **concessionary loan schemes** and essential items through the branch network

DFCC Bank's sustainability initiatives focus on entrepreneur development, education, environment and emergency relief; this focused approach based on the needs of the country and the Bank's strengths will enable the Bank to create a bigger positive impact over the long term.

Social and Environmental Capital

Sustaining the society and environment that DFCC Bank is a part of is built into the core values and strategy of the Bank. The Bank's sustainability initiatives focus on entrepreneur development, education, environment, and emergency relief in line with emerging issues and the Bank's strengths. This focus enables the Bank to deliver a bigger impact over the long term in these areas. The Bank also engages with the communities it is based in by organising community development initiatives through its branch network.

SUSTAINABLE DEVELOPMENT GOALS

Sustainable Development Goals of the United Nations

DFCC Bank is committed to achieving the Sustainable Development Goals (SDGs) outlined by the United Nations to build a more prosperous, equitable, and sustainable world. Several SDGs such as Quality Education, Renewable Energy, Good Jobs and Economic Growth, Reduced Inequalities, Sustainable Cities and Communities, Climate Action, and Life on Land have been addressed through the initiatives outlined in this section.

Social capital

Education

Having launched the "*Samata* English" project as a pilot in April 2017 in the Gampaha and Kalutara areas, the Bank has gone on to fine tune and expand the programme since. The programme aims to enhance English competency in youth aged 16-22 to enable them to enter the workforce. During April to August 2018, the programme was carried out in the Galle, Kandy, and Kurunegala areas. Partnering with the Gateway Language Centre, 96 students were selected to enrol for the course after completing an initial assessment. Upon completing the three-month course and a final examination, 87 students scored a First Class out of the 96 students, indicating how much the course has helped to improve their spoken English skills. Gateway conducted the final assessment and the students also received a certification from the Colombo Academy of Language Skills and Dramatic Art (CALSDA).

Furthermore, upon the successful completion of the second edition of the "*Samata* English programme", the top six achievers across the regions were offered the opportunity to join the Bank as interns, creating opportunities for them to apply their education, gain work experience, and develop their skills.

Entrepreneurship

DFCC Bank is renowned for having assisted many SMEs during their early and risky start-up stages, assisting them to reach the next level. Most have gone on to evolve into large corporations today. The Bank assists SMEs not just through monetary means but also through entrepreneur building training programmes that educate them on how to manage a business. This continued in 2018 with the "*Sahaya Hamuwa*" entrepreneur development programme. Twenty such programmes were conducted during the year across the country with the support of the Central Bank of Sri Lanka.

Environmental capital

DFCC Bank periodically reviews its resource consumption and identifies innovative methods of conserving energy and providing business solutions in a proactive manner. The Bank holds fast to the 3R concept – Reduce, Reuse, Recycle – when procuring and managing resources.

Though there is a nominal material impact of the Bank's operations on the environment, DFCC Bank is committed to managing its consumption of materials and resources in an efficient manner. All internal correspondence is restricted to email communications, while internal Board and management meetings are conducted through technological solutions like Octoplex, which utilises hand-held devices for review and transfer of information such as Board and committee minutes.

The Bank has adopted a paperless workflow system which sees credit approvals relating to all products carried out online.

Moreover, the planning and budgeting system was migrated to Oracle Cloud which uses the Software-as-a-Service (SaaS) model, as part of the Bank's Cloud adoption strategy. Duplex printing is encouraged in cases where printing is necessary, and 90% of the total annual report requirements are produced in CD-ROM format.

Solar energy harvesting for electricity was implemented at the Ramanayake Mawatha (34.6 kW) and Negombo branches (27.4 kW). New air conditioners with environmentally friendlier refrigerant (R410a) were installed where possible.

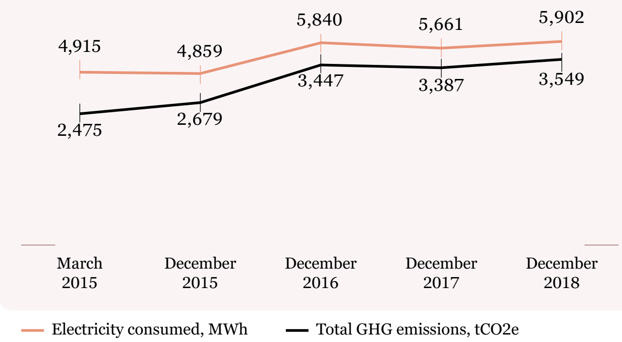
GHG Emissions

We are reporting our greenhouse gas (GHG) emissions on a voluntary basis for the seventh consecutive year. The physical boundary remains the same as in the previous years which is "DFCC Banking Business".

As before, our calculations are based on the WBCSD/WRI Greenhouse Gas Protocol Corporate Standard and the most recent versions of applicable Calculation Tools. Our reporting under Scopes 1 and 2 is complete except for fugitive emissions from air conditioning plants, which are relatively insignificant. Reporting on Scope 3, which is optional, is selective based on significance and data availability.

The total GHG emissions during the period under review amounted to 3,549 tonnes carbon dioxide equivalent (tCO2e), an increase of 4.78% over the previous year.

Managing our environmental impact



Indirect GHG emissions from purchased electricity was by far the single largest contributor, accounting for 29.96% of the total in respect of Bank-owned premises (2017: 30.7%) and another 60.17% of the total in respect of rented premises (2017: 59.87%), bringing its total share to 90.13% (2017: 90.58%).

Given the nature of our business, the relatively high proportion of electricity in our total GHG emissions is to be expected.

Carbon footprint

Scope	Source	GHG emissions 2018 tCO2e	2018 %	2017 tCO2e	2017 %
Scope 1 (direct)	Stationary combustion	**2.54**	**0.07**	5.22	0.15
	Mobile combustion	**199.73**	**5.63**	172.80	5.10
	Total Scope 1	**202.27**	**5.70**	178.01	5.26
Scope 2 (indirect)	Purchased electricity (CEB)	**1,063.33**	**29.96**	1,040.40	30.71
	Total Scopes 1 and 2	**1,265.60**	**35.66**	1,218.40	35.97
Scope 3 (indirect)	Stationary combustion	**104.57**	**2.95**	91.27	2.69
	Purchased electricity (CEB)	**2,135.71**	**60.17**	2,028.08	59.87
	Employee air travel	**43.51**	**1.23**	49.69	1.47
	Total Scope 3	**2,283.79**	**64.35**	2,169.04	64.03
	Total Scopes 1, 2 and 3	**3,549.39**	**100.0**	3,387.44	100.0

Note: Totals may not tally exactly due to rounding

Environmentally friendly initiatives

Through the Bank's Sustainability Unit, various environment-related initiatives were conducted in 2018.

Tree planting campaign

The Sustainability Unit continued the commemorative staff tree planting campaign for the second year. The Unit plants trees periodically to celebrate every staff member's birthday and sends them personalised invitations to attend the tree planting campaigns with their families. The initiative helps to instil a greater commitment in staff and their families towards protecting the planet and acting as responsible corporate citizens.

In 2018, the Bank conducted 19 tree planting campaigns across 11 Districts of Sri Lanka. 11,265 trees were planted, out of which approximately 1,800 trees were to commemorate staff birthdays. Some campaigns were carried out in partnership with ReForest Sri Lanka, a voluntary organisation committed to building a better environment. Agriculture equipment was also gifted to three schools in Ranala, Bandarawela, and Welimada during the tree planting campaigns held in those schools.

e-waste management drive

The Bank continued its e-waste drive from 2017, which encourages staff to bring their e-waste and place them in designated bins which are then collected by an approved e-waste recycling company. Staff can thus partake in a sustainable activity which will directly contribute towards resolving the problem of garbage disposal.

Waste management

A "Plastic Recycling Day" was held at the DFCC Bank Head Office in September 2018. Plastic items were collected, including plastic waste from the Bank's premises and discarded plastic items brought by staff members from their homes, and sent to a plastic recycling plant. The event raised awareness within employees about the importance of using fewer plastic products and disposing of them in an environmentally responsible manner.

Supporting sustainable banking practices

DFCC Bank played an active role in the Sri Lanka Sustainable Banking Initiative (SBI) promoted by the Sri Lanka Banks' Association (SLBA). Together with 17 other banks in Sri Lanka, DFCC Bank signed up for 11 Sustainable Banking Principles for Sri Lanka in November 2015 under Phase I, which is funded by DEG of Germany, OeEB of Austria, Proparco of France, and FMO of Netherlands. The Bank's Assistant Vice-President for Sustainability is a member of the Core Team formed to implement these principles across all banks in Sri Lanka under Phase II.

Social and environmental management system

The Bank continued implementing the Social and Environmental Management System (SEMS) with regard to project financing. The Bank works to ensure that the projects it finances meet required environmental and social regulations and standards and do so on a continuous basis. The Bank gives prominence to the financing of green initiatives such as renewable energy projects.

Appointment of management committee to spearhead sustainability initiatives

During the period under review, a cross-functional management team headed by the CEO was established to spearhead the Bank's sustainability initiatives. The Committee will be responsible for identifying "green initiatives" that adhere to the Bank's core values, where the Bank can contribute positively to society and the environment.

Emergency relief

In response to the rising rate of natural disasters, DFCC Bank steps up to assist those affected by launching products with concessionary interest rates for businesses and individuals.

Recognition received

In 2018, DFCC Bank was awarded a Certificate of Merit for "Outstanding Sustainable Project Financing" at the Global Sustainable Finance Awards held in July in Karlsruhe, Germany. The Karlsruhe Sustainable Finance Awards honours financial institutions and organisations who make significant contributions to the field of sustainable finance. The award recognised the success of DFCC Bank in financing MSMEs.

Awards and Accolades

Category	Awards	Project	Institution	Month
Best Annual Report, Banking Category	Winner	Annual Report 2016	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	February 2018
Human Capital Development	Plaque of Merit	Building a Cohesive Value-Based Internal Cultures	Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)	February 2018
Outstanding Business Sustainability Achievement Award	Merit	DFCC Bank's sustainability initiatives	Global Sustainable Finance Conference, City of Karlsruhe, Germany	July 2018
Capital Markets Quiz	1st in the Banking sector and 2nd overall	Corporate	CSE Masterminds Quiz Competition, Colombo Stock Exchange (CSE)	July 2018
Bestowed with the ‘Leading Partner Bank in Sri Lanka	Winner	Trade Finance	Asian Development Bank (ADB)	September 2018
Most Admired Companies of Sri Lanka	Top 10 Companies in Sri lanka	Corporate	Chartered Institute of Management Accountants (CIMA) and the International Chamber of Commerce Sri Lanka (ICCSL)	September 2018
Best Common ATM Acquirer of the Year (Category C)	Winner	Use of the country’s national payment infrastructure and Innovative technology to promote digital transactions	LankaPay, Techinnovation Awards 2018	September 2018
Business Today - Top - 30 (2017/18)	Position - 14	Corporate	Business Today Magazine	November 2018
Banking Institutions	Compliance Awards	Annual Report 2017	Chartered Accountants of Sri Lanka	December 2018

Integrated Risk Management

Risk culture and vision

DFCC Bank PLC (Bank) adopts a comprehensive and well-structured mechanism for assessing, quantifying, managing and reporting risk exposures which are material and relevant for its operations within a well-defined risk management framework. An articulated set of limits under the risk management framework explains the risk appetite of the Bank for all material and relevant risk categories and the risk capital position. Risk management is integrated with strategic, business and financial planning and customer/client transactions, so that business and risk management goals and responsibilities are aligned across the Organisation. Risk is managed in a systematic manner by focusing on a group basis as well as managing risk across the enterprise, individual business units, products, services, transactions, and across all geographic locations.

The following broad risk categories are in focus:
Risks covered under Pillar I of Basel regulations

- Credit risk
- Market risk including foreign currency risk, equity prices risk, and interest rate risk in the trading book
- Operational risk

Other risks covered under Pillar II of Basel regulations

- Business risk and strategic risk
- Liquidity risk
- Settlement risk in treasury and international operations and credit concentration risk
- Cyber security risk
- Interest rate risk in the banking book
- Legal risk
- Compliance risk
- Reputational risk
- Country risk

Credit risk amounts to the highest quantum of quantifiable risk faced by the Bank based on the quantification techniques currently in use. DFCC Bank's credit risk accounted for 90% of the total risk-weighted assets. Additionally, the Bank takes necessary measures to proactively manage operational and market risks as very important risk categories considered as Pillar I risks under the Basel regulations. Operational risk incidents may be either high frequency but low impact or with low frequency but high impact, yet all of them warrant being closely monitored and managed prudently.

The Bank's general policies for risk management are outlined as follows:

a. The Board of Directors' responsibility for maintenance of a prudent integrated risk management function in the Bank.
b. Communication of the risk policies to all relevant employees of the Bank.
c. Structure of "Three Lines of Defence" in the Bank for management of risks which consists of the risk-assuming functions, independent risk management and compliance functions and the internal and external audit functions.
d. Ensuring compliance with regulatory requirements and other laws underpinning the risk management and business operations of the Bank.
e. Centralised integrated risk management function which is independent from the risk assuming functions.
f. Ensuring internal expertise, capabilities for risk management, and ability to absorb unexpected losses when entering into new business and delivery channels, developing products, or adopting new strategies.
g. An assessment of risk exposures on an incremental and portfolio basis when designing and redesigning new products and processes before implementation. Such analyses will include among other areas, business opportunities, target customer requirements, core competencies of the Bank and the competitors and financial viability.

h. Adoption of the principle of risk-based pricing.
i. Ensuring that the Board approved target capital requirements, which are more stringent than the minimum regulatory capital requirements, are not compromised. For internal purposes, economic capital is quantified using Basel recommended guidelines in the Internal Capital Adequacy Assessment Process (ICAAP). A cushion of economic capital over and above the regulatory capital requirement is maintained to cover for stress losses or losses caused by unquantifiable risks such as strategic risk, liquidity and reputation risks (risk categories which are not in Pillar I of Basel guidelines). Under ICAAP, capital is monitored on a quarterly basis based on certain stress scenarios which are subject to regular review based on macro-level anticipated developments.
j. Aligning risk management strategy to the Bank's business strategy.
k. Ensuring comprehensive, transparent, and objective risk disclosures to the Board, Corporate Management, regulators, shareholders and other stakeholders.
l. Continuous review of risk management framework and ICAAP to align with Basel recommendations and regulatory guidelines.
m. Maintenance of internal prudential risk limits based on the risk appetite of the Bank wherever relevant, over and above the required regulatory limits.
n. Ensuring a prudent risk management culture within the Bank.
o. Periodic review of risk management policies and practices to be in line with the developments in regulations, business environment, internal environment and industry best practice.

A risk management culture has been created across the Bank that promotes its business objectives and an environment that enables Management to execute the business strategy in a more efficient and sustainable manner. The Board of Directors regularly reviews the risk profile of the Bank and its Group, and every business or function is included in developing a strong risk culture within the Bank. Further, the Bank ensures that, every employee has a clear understanding of his/her responsibilities in terms of risks undertaken in every step in their regular business activities. This has been inculcated mainly through the Code of Conduct, periodically conducted training programmes, clearly defined procedural manuals and integrated risk management function's involvement as a review process in business operations.

Risk governance

Approach of "Three Lines of Defence"

DFCC Bank PLC advocates strong risk governance applied pragmatically and consistently with a strong emphasis on the concept of "Three Lines of Defence". The governance structure encompasses accountability, responsibility, independence, reporting, communication and transparency, both internally and with our relevant external stakeholders.

The First Line of Defence involves the supervision and monitoring of risk management practices by the business managers, Corporate Management and executive committees while discharging their responsibilities and accountability for day-to-day management of business operations. Independent risk monitoring, validation, policy review and compliance by the Integrated Risk Management Department (IRMD), the compliance function and periodic monitoring and oversight by the Board Integrated Risk Management Committee (BIRMC) constitute the Second Line of Defence. The Third Line of Defence is provided by the independent check and quality assurance of the internal and external audit functions.

Risk governance of the Bank includes setting and defining the risk appetite statement, risk limits, risk management functions, capital planning, risk management policies, risk infrastructure, Management Information Systems and analysis to monitor the Bank's risk profile. The Bank exhibits an established risk management culture with effective risk management approaches, systems and controls. Policy manuals, internal controls, segregation of duties, clearly demarcated authority limits and internal audit form a part of key risk management tools. The Bank has developed a risk management framework covering risk governance, which includes, risk management structure comprising different subcommittees and clearly defined reporting lines ensuring risk management unit is functioning independently. The Group Chief Risk Officer (CRO), functions with direct access to the BIRMC.

Governance structure for risk management at DFCC Bank PLC

The concept of "Three Lines of Defence" for integrated risk management function of DFCC Bank PLC

First Line of Defence	Second Line of Defence	Third Line of Defence
Involvement by the Board, CEO, Deputy CEO, Senior Management Committees. Accountability and responsibility of senior and middle management supported by internal controls, governance structure, processes and risk management.	Oversight by the BIRMC and independent risk monitoring, and compliance by IRM, Compliance and General Legal.	Oversight by the Board's Audit Committee, and independent check and quality assurance.
Strategy, performance and risk management	**Policy, monitoring and oversight**	**Independent assurance**
Board of Directors and Board Committees **Chief Executive Officer and Management Committees** Corporate Banking; Branch Banking; Business Banking; Treasury; General Operations; HR; Rehabilitation and Recoveries; IT; Litigation Unit; International Operations; Consumer Banking; Credit Administration; Branch Credit Management; Bancassurance; Business Legal; Marketing; Planning; NSC	Compliance and General Legal Integrated Risk Management	Internal Audit External Audit

Risk policies and guidelines

A set of structured policies and frameworks approved by the BIRMC and the Board forms a key part of the risk governance structure. Integrated Risk Management Framework stipulates, in a broader aspect, the policies, guidelines, and organisational structure for the Management of overall risk exposures of the Bank in an integrated approach. This framework defines risk integration and the aggregation approaches for different risk categories. In addition, separate policy frameworks detail the practices for management of key specific risk categories such as credit risk, market risk, credit concentration risk, liquidity risk, operational risk, reputation risk and other policies governing Information Security risk. These policy frameworks are reviewed annually and communicated across the Bank. Respective staff members are required to adhere to the specifications of these frameworks when conducting business transactions.

Risk appetite

Risk appetite of the Bank has been defined in the Overall Risk Limits System. It consists of risk limits arising from regulatory requirements, borrowing covenants, and internal limits for prudential purposes. The Limits System forms a key part of the risk indicators and covers key risk areas such as credit, interest rate, liquidity, operational, foreign exchange, concentration, and risk capital position amongst others. Lending limits cover the industry sectors and geographical regions as part of the prudential internal limits. Industry sector limits for the lending portfolio considers the inherent diversification within the subsectors and the borrowers within broader sectors. These limits are monitored monthly and quarterly on a "Traffic Light" system. These risk appetite limits are reviewed at least annually in line with the risk management capacities, business opportunities, business strategy of the Bank, and regulatory specifications.

In the event the risk appetite threshold has been breached or it is approaching the levels not desirable by the Bank, risk mitigating measures and business controls are implemented to bring the exposure level back within the accepted range. Risk appetite, therefore, translates into operational measures such as new or enhanced limits or qualitative checks for the dimensions such as capital, earnings volatility, and concentration of risks.

Tolerance limits for key types of risks

Risk area	Risk appetite-criteria	Limit/Range
Integrated risk and capital management	Total Tier I Capital Adequacy Ratio (under Basel III) (Total Tier I capital as a percentage of total risk-weighted assets)	Regulatory – 7.875% (2018) – 8.50% (2019) Internal limit range is based on similar rated banks
	Total Capital Adequacy Ratio (under Basel III) (Total capital as a percentage of total risk-weighted assets)	Regulatory – 11.875% (2018) – 12.50% (2019) Internal limit range is based on similar rated banks
Credit quality and concentration	NP ratio	< 5% (Internal)
	Single borrower limit – Individual	< 30% (Regulatory)
		< 25% (internal)
	Single borrower limit – Group	< 33% (Regulatory)
		< 28% (Internal)
	Aggregate large accommodation	< 55% (Regulatory)
		< 45% (Internal)
	Exposures to industry sectors	< 5% to < 20% (Internal)
	Aggregate limit for related parties	< 25% (Internal)
Liquidity risk	Liquid asset ratio for DBU and FCBU	20% (Regulatory)
	Liquidity coverage ratio (All currencies and rupee only)	Regulatory - 90% (2018) – 100% (2019) Internal limit - 10% higher than regulatory limit
Market risk	Forex net open long position/Short position	USD 5 Mn (long) – USD 17 Mn (short)
Operational risk	Reputation risk of the Bank	Zero or very low risk appetite
	Operational risks due to internal and external frauds, employee practices and workplace safety, client products, data leakages and business practices, damage to physical assets, business disruption and systems failures and failures in execution, delivery, and process management	

Board Integrated Risk Management Committee (BIRMC)

The BIRMC is a Board subcommittee, which oversees the risk management function and the provisions of Basel III implementation as required by the Regulator from time to time in line with Board-approved policies and strategies. The BIRMC functions under the responsibilities set out in the Board-approved Charter for the BIRMC, which incorporates corporate governance requirements for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL). BIRMC sets the policies for bank-wide risk management including credit risk, market risk, operational risk, cyber security risk, and liquidity risk. In addition to the Board representatives, the BIRMC consists of the CEO and the CRO as members. Further, Heads representing Credit, Finance, Treasury, Information Technology, Operations, and Compliance attend the meeting as invitees. A summary of the responsibilities and functions of the BIRMC is given in the Report on the Board Integrated Risk Management Committee on page 119 of this Annual Report.

The BIRMC meets at least on a quarterly basis and reviews the risk information and exposures as reported by the Integrated Risk Management Department, Treasury, Finance and the other business and service units. Risk reporting includes reports on overall risk analysis relating to the Bank's capital, risk appetite, limits position, stress testing, any strategic risks faced by the Bank and risk analysis of the Group companies. Additionally, they include reports covering the main risk areas such as credit risk, market risk, liquidity risk, operational risk, information systems security risk, and compliance risk.

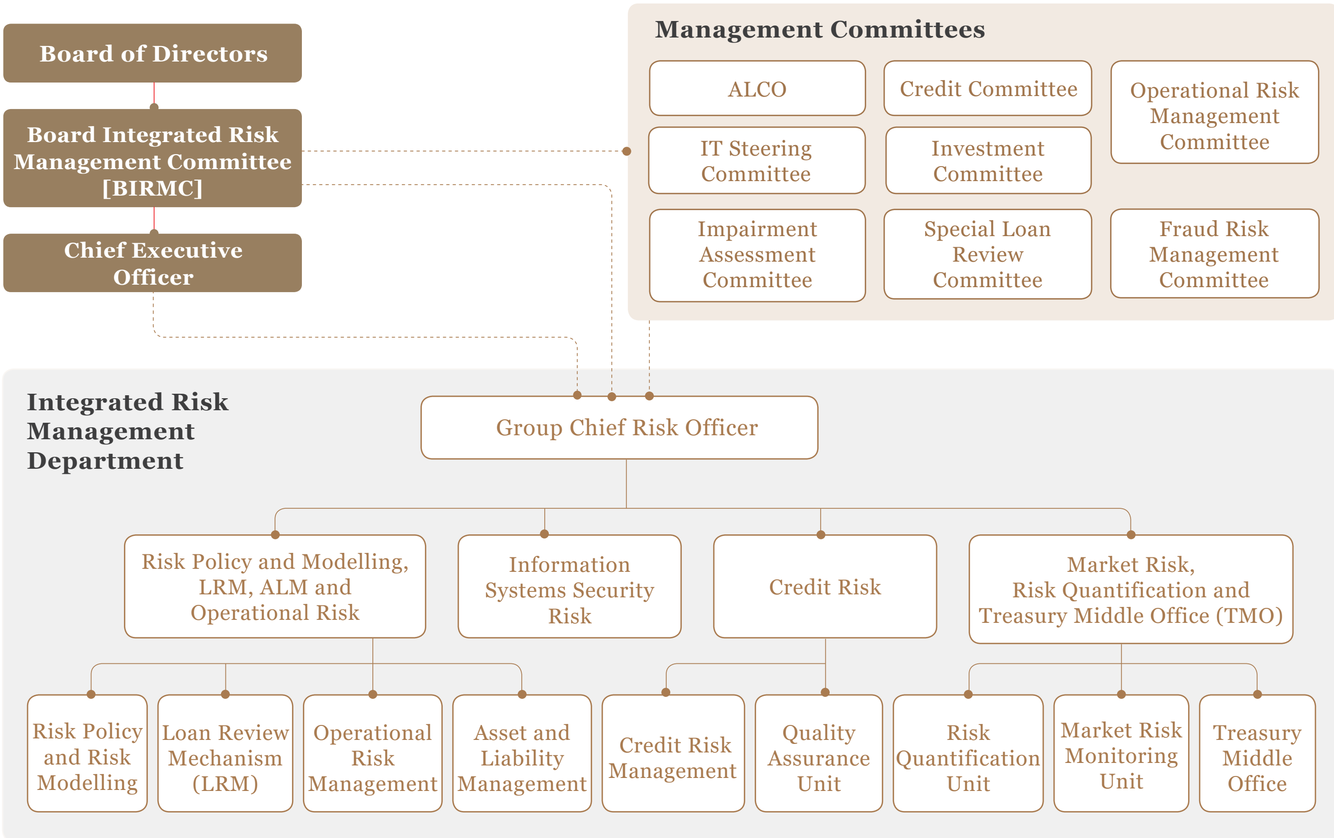
Scope and main content of risk reporting to Board and Senior Management

Risk type	Scope and main content of risk reporting
Overall risk	→ Review of the Internal Capital Adequacy Assessment Process (ICAAP) → Regulatory Capital Adequacy position and trends compared with limits → Overall risk limit system including regulatory and advisory/internal limits → Stress Testing of key risks and overall exposures → Reports on top and emerging strategic and business risks → Risk analysis of Group companies → Risk analysis of new products and changes to products
Credit risk	→ Credit portfolio analysis and risk quantifications → Analysis of concentration of the lending portfolio (HHI computation) → Summary of Loan Review Mechanism → Reports on validation results and changes implemented for risk rating models
Market and liquidity risk	→ Reports on liquidity and foreign exchange risk management by Treasury → Market risk analysis by Treasury Middle Office and review of any limits → Equity portfolio analysis → Liquidity risk monitoring under stock and flow approaches → Status report of margin trading facilities → Analysis of investment, trading and fixed income trading portfolios → Report of key decisions and recommendations by ALCO
Operational risks	→ Key decisions and recommendations by the ORMC and FRMC → Reports on Business Continuity Plan and disaster recovery drills undertaken
IT and systems security risk	→ External and internal vulnerability assessment reports → Penetration testing reports → Information security policies and status of implementation → Reports of the ORMC on information security → Status of information systems security plan
Compliance risk	→ Status of the Bank's compliance with rules and regulations → Results of compliance tests undertaken and assessment of compliance risk levels → Report on new rules and regulations → Review of compliance related policies and procedures

Involvement of Management Committees

Management Committees such as the Credit Committee (CC), Asset and Liability Management Committee (ALCO), Operational Risk Management Committee (ORMC), Fraud Risk Management Committee (FRMC), Special Loan Review Committee (SLRC), IT Steering Committee (ITSC), Investment Committee (IC), and Impairment Assessment Committee (IAC) are included in the organisational structure for integrated risk management function. The responsibilities and tasks of these Committees are stipulated in the Board-approved Charters and Terms of References (TORs) and the membership of each committee is defined to bring an optimal balance between business and risk management.

Organisations structure for integrated risk management



The Integrated Risk Management Department (IRMD) is responsible for measuring and monitoring risk at operational levels on an ongoing basis to ensure compliance with the parameters set out by the Board/ BIRMC and other Executive Committees for carrying out the overall risk management function in the Bank. It consists of separate units such as Risk Policy and Modelling, Credit Risk Management and Quality Assurance, Market Risk Monitoring, Operational Risk Management, Risk Quantification, Information Systems Security Risk Monitoring and Treasury Middle Office. IRMD is involved with product or business strategy development and entering into new business lines and gives input from the initial design stage throughout the process from a risk management perspective.

Key developments in risk management function during the period under review

Several significant initiatives were undertaken focusing continuously on regulatory developments and reassessing the Bank's existing risk management policies, guidelines and practices for necessary improvements. The improvements brought in by adopting the Basel III Regulatory Standards by the banks in Sri Lanka from mid 2017 continuing to 2018 is crucial. In addition to these regulatory specifications, changes in business strategy, industry factors and international best practices were also considered in the improvement process. The following are the key initiatives during the period under review which led to further improvements in the overall integrated risk management function.

Prudential risk limits were reviewed in order to reflect the current risk appetite of the Bank by setting new limits wherever necessary. Internal limits were put in place to better manage single and group borrower concentration as trigger points, which are much stricter than the regulatory limits. The Bank set new milestones to improve Current Accounts and Savings Accounts (CASA) Ratio and targets were set in order to maintain adequate Liquid Asset Ratios. New limits were set for liquidity risk in order to manage deposit concentration with close monitoring of the related ratios, while the Bank settled its international borrowing of USD 100 Mn in October. Further, based on the current risk appetite, the Bank enhanced the exposure limit for lending to Maldives, which has been in place to manage the country concentration risk.

All the Board-approved risk management frameworks, charters, and TORs were reviewed during the period, especially considering the changes in new regulations and the Bank's business model.

Periodic validation of the credit rating models was carried out for better discriminatory power, while new scorecards were introduced for retail lending. As part of establishing an independent model validation process, the Bank has engaged the services of a foreign risk management consultancy firm to obtain an independent validation for its corporate banking and leasing rating models and certain recommended improvements were incorporated in these rating models. Additionally, new scorecards have been introduced and implemented for new business areas the Bank has ventured into such as credit cards and Micro, Small and Medium Enterprise lending. Replacing the stand-alone models previously used, a new two dimensional scorecard catering to all types of personal financial services was deployed later during the previous year, which continued to be tested and improved during the year with relevant inputs from the business.

Treasury Middle Office (TMO) which is functionally segregated from the Treasury Department, directly reports to the Group CRO and monitors the Treasury-related market risk limits. The TMO previously used a dashboard that facilitated the timely reporting of Treasury market positions independently to the Management. TMO jointly with Treasury embarked on a new Treasury system implementation project which was deployed in mid 2018. This has increased the efficiency of Treasury operations and risk management by TMO while automating the TMO dashboard better facilitating real time monitoring of Treasury limits and transactions. The process of voice recording and testing of Treasury transactions was further improved during the year while documenting the process in detail with a separate Board approved policy.

Scenario analysis and simulations by the ALM unit to assess the expected behaviour of interest margins enabled ALCO to take proactive measures to manage the erosion of margins. Looking at the trends in the market rates, ALCO proactively changed the pricing methods, thus managing the net interest margins of the Bank in 2018. The Bank, being net asset sensitive to interest rate changes in the shorter term was able to improve the interest margins with the increase in the market rates gradually during the latter part of the year.

IRMD continued to calculate loss ratios for key lending products using historical recovery data in support of impairment assessment under IFRS 9. As part of the risk management practices, the Bank computed the key credit risk quantification parameters such as Probability of Default (PD), Exposure at Default (ED), Loss Given Default (LGD) and the loss ratios which are defined and recommended under the Basel III and IFRS. The results indicated improvements in the credit risk rating process, rating models, recovery process and the collateral quality in the Bank.

The credit workflow of the Bank was further improved during the year. The new workflow ensures that every credit proposal except for centrally processed retail loans, is evaluated by an independent authority not connected to business lines, being either the Credit Risk Management Unit (CRMU) or the Quality Assurance Unit (QAU) of IRMD, based on the size of the accommodation and the approving authority.

To conform with the CBSL requirement of Loan Review Unit to be independent from the Credit Risk Management Unit, separate Loan Review Unit has been established under the Risk Policy and Modelling, ALM and Operational Risk Unit.

The stress testing framework was strengthened during the year to include stress testing in relation to the economic and macro environmental factors, Group level stress tests while specifying in the policy the parties responsible and action to be taken when triggered at certain levels of stress.

Having duly recognised the global trend on increasing threats on systems and information security, the Bank increased its focus on IT systems security under its operational risk management practices. The scope of the Information Systems Security Unit was further enhanced during the year under the Integrated Risk Management Department to proactively manage the information security risk of the Bank. The Operational Risk Management Committee oversees the effectiveness of security initiatives and directs the management of information security risks within the Bank.

Server network, business application security reviews, technology risk assessments, network and other device security reviews are being conducted internally on regular basis to ensure required attention is given for rectifying known vulnerabilities and security weaknesses in timely manner. Also, the unit involves in new system implementations from request for proposal (RFP) stage to Go–live confirmation and make sure new systems are compliant with industry security best practices. Further, the unit works with reputed external parties to ensure that critical and customer facing systems are appropriately secured.

Staff awareness programmes on operational risk were held across the Bank especially for the newly appointed branch managers. The Bank has developed a model for Risk and Control Self-Assessment, and Key Risk Indicators for operational risks across all major functions and departments, and continues to monitor closely their applicability, trends and effectiveness of the controls on a semi annual basis. DFCC Bank PLC developed a fraud risk management framework with the objective of establishing a procedure in handling frauds and creating awareness among the employees of the Bank. The policy elaborates the procedure for preventing/mitigating and detecting frauds that need to be followed by all employees.

Fraud Risk Management Committee (FRMC) is a Management Committee reporting to the Board through BIRMC which is tasked to oversee the effective functioning of the Bank's fraud risk management process as per the approved policies and the guidelines by the BIRMC and the Board. The Committee will focus on potential frauds and effectiveness of anti-fraud measures in the Bank.

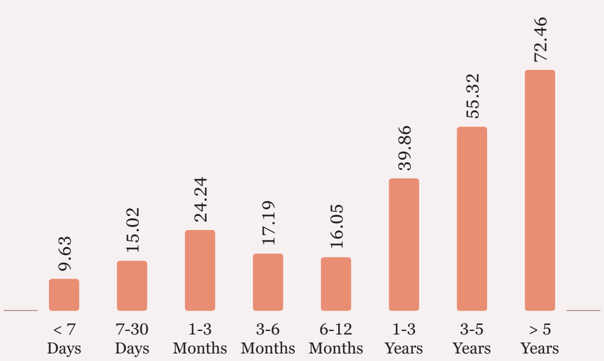
Credit risk

Credit risk is the risk of loss to the Bank if a customer or counterparty fails to meet its financial obligations in accordance with agreed terms and conditions. It arises principally from on-balance sheet lending such as loans, leases, trade finance, and overdrafts as well as through off-balance sheet products such as guarantees and Letters of Credit. A deterioration of counterparty credit quality can lead to potential credit-related losses for a bank. Credit risk is the largest component of the quantified risk accounting for 90% of the total risk-weighted assets of DFCC Bank PLC.

The challenge of credit risk management is to maximise the risk adjusted rate of return by maintaining the credit risk exposure within acceptable levels. With the implementation of IFRS 9, a proactive approach will be adopted by Credit Risk Management Unit in monitoring credit risk parameters and indicators which include watch listing of customers through quantitative and qualitative indicators.

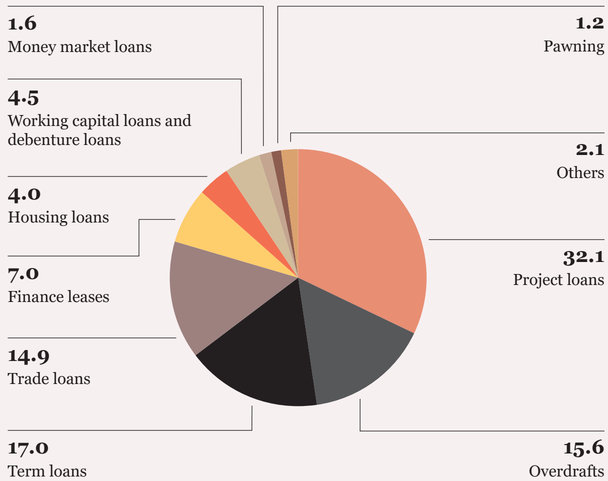
Residual Maturity of Total Advances

LKR Bn



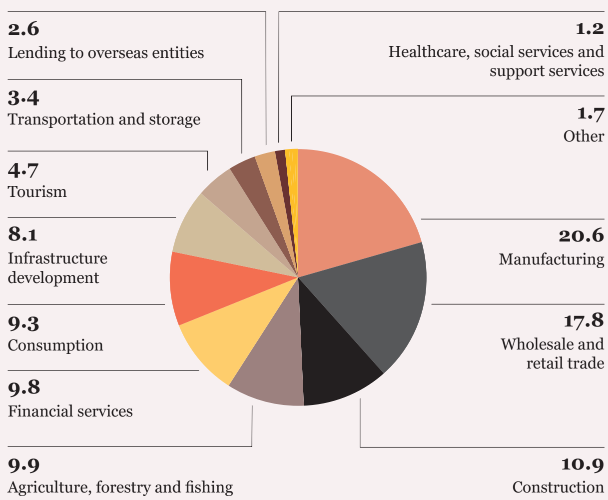
Product composition

%



Sector-wise portfolio distribution

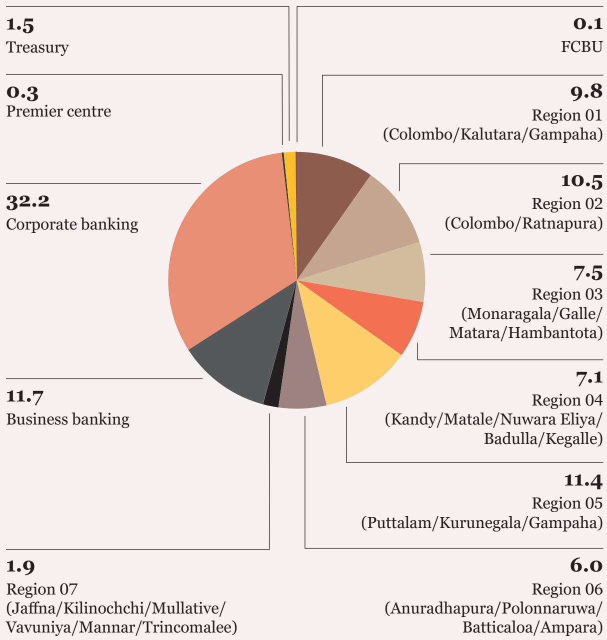
%



Note: "Other" category includes "Education", "Information Technology and Communication Services", "Professional, Scientific and Technical Activities", "Arts, Entertainment and Recreation" and "Lending to Ministry of Finance"

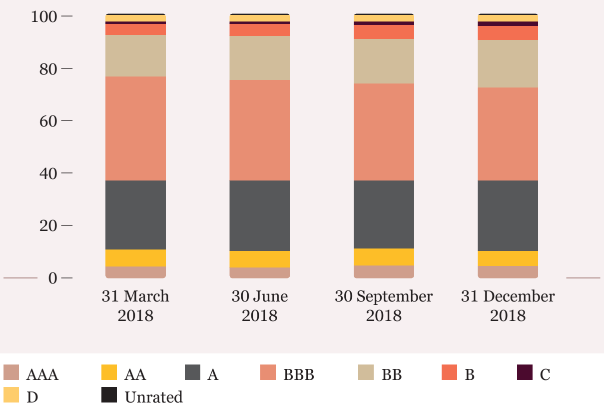
Geographical distribution of gross loans and receivables

%



Rating Distribution of Portfolio

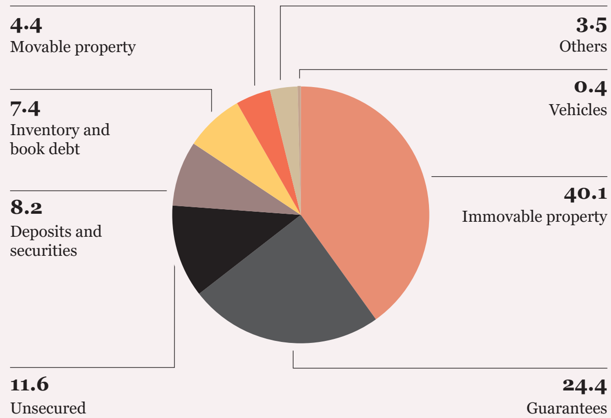
%



Note: Excludes Concessionary Staff Loans and Credit Card instalment loans

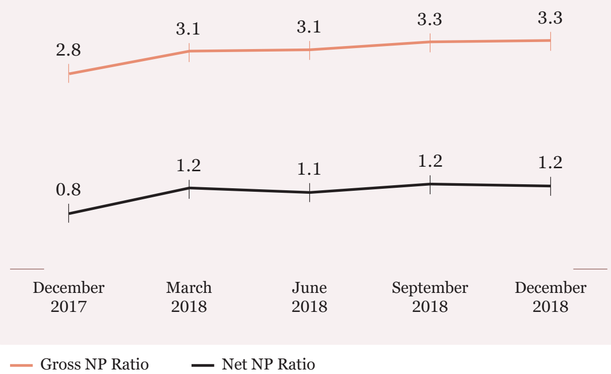
Collateral-wise distribution of the loans and OD portfolio

%



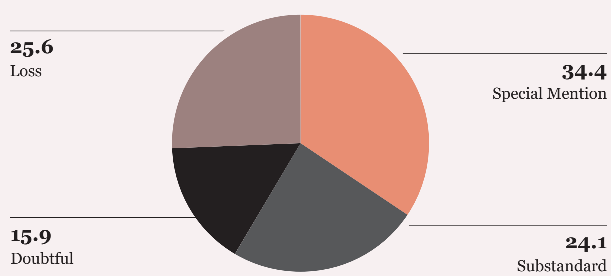
Movement of NPL

%



NPL Composition

%



Credit risk management process at DFCC Bank PLC

The Bank's credit policies approved by the Board of Directors define the credit objectives, outlining the credit strategy to be adopted at the Bank. The policies are based on CBSL Directions on integrated risk management, Basel recommendations, business practices, and risk appetite of the Bank.

Credit risk management guidelines identify target markets and industry sectors, define risk tolerance limits and recommend control measures to manage concentration risk. Standardised formats and clearly documented processes and procedures ensure uniformity of practices across the Bank.

Credit risk culture	→ Credit risk management framework and credit policy → Governance structure and specific organisational structure for credit risk management → IRMD creates awareness of credit risk management through training programmes and experience sharing sessions
Credit approval process	→ Structured and standardised credit approval process as documented in the credit manual. The entire gamut of activities involving credit appraisal, documentation, funds disbursement, monitoring performance, restructuring and recovery procedures are described in detail in the manual which is reviewed annually → Standardised appraisal formats have been designed for each product type and are being reviewed annually to be in line with the business needs → Clearly defined credit workflow ensures segregation of duties among credit originators, independent review and approval authority → Delegation of Lending Authority sets out approval limits based on a combination of risk levels, as defined by risk rating and security type, loan size, proposed tenure, borrower and group exposure → IRMD's involvement in independent rating review of every credit proposal with the exception of centrally processed retail loans → CRO is an observer of the Credit Committee and evaluates credit proposals from a risk perspective → Risk-based pricing is practised at the Bank, any deviations being allowed only for funding through credit lines and where strong justification is made due to business development purposes
Control measures	→ Negative sectors and special clearance sectors are identified based on the country's laws and regulations, the Bank's corporate values and policies and level of risk exposure. Negative sectors are recognised as industry sectors to which lending is disallowed while special clearance sectors are industry sectors and credit products to which the Bank practices caution in lending → Exposure limits on single borrower, group exposure, and advisory limits on industry sectors, large group borrowers and selected geographical regions are set by the Board of Directors on recommendation of IRMD

Credit risk management	→ Timely identification of problem credits through product-wise and concentration analysis in relation to industries, specific products and geographical locations such as branches/regions/provinces → Industry reports/periodical economic analysis provide direction to lending units to identify profitable business sectors to grow the Group's portfolio and to identify industry-related risk sources and their impact → Evaluation of new products from a credit risk perspective → Post sanction review of loans within a stipulated time frame is in place in accordance with Loan Review Policy to ensure credit quality is maintained. Separate Loan Review Unit is established independent of Credit Risk Management Unit → Independent rating review by the Credit Risk Management Unit or the Quality Assurance Unit of IRMD ensures proper identification of credit quality at the time of credit origination and annual credit reviews
Credit risk monitoring and reporting	→ Analysis of total portfolio in terms of NP movement, product distribution, industry sectors, Top 20 exposures, borrower rating distribution, branch-wise portfolio distribution, and collateral distribution is carried out periodically and reported to BIRMC → Watch listing of clients with significant arrears and receiving feedback from regional offices on recovery action taken to regularise the position and information is disseminated to decision-makers on frequently watch-listed clients based on arrears exposures, NP crossovers, rescheduling NP classifications and reclassifications, rating downgrades and qualitative indicators monitored over a period of time → Reporting quarterly to BIRMC on credit concentration risk positions with regard to regulatory limits such as single borrower and group exposure limits and internal advisory limits on industry sectors, large group borrowers, and selected geographical regions as well as exposure based on credit rating grades → Reporting on top key risks to BIRMC and the Board
Credit risk mitigation	→ Borrower's ability to pay is the primary source of recovery, whereas collateral acts as the secondary source in the event borrower's cash inflow is impaired

Key credit risk measurement tools and reporting frequencies

The following credit risk measurement tools are being used in managing credit risk by the Bank and reported in the stipulated frequencies:

Credit risk measure/indicator	Frequency
Rating model validation results	Annually
Probability of default	Annually
LGD under Basel III and IFRS	Quarterly/Annually
Top and emerging risks under credit risk	Monthly
Credit portfolio analysis	Quarterly
Rating wise distribution across business segments	Quarterly
Summary of rating reviews including overridden ratings	Quarterly
Watch-listed clients	Monthly
Summary of reviews done under Loan Reviews Mechanism	Quarterly

Dimensions for analysis and monitoring of credit concentration risk

Credit concentration risk measure/indicator	Frequency
Industry sector limits positions	Monthly/Quarterly
Top 20 borrower exposures	Quarterly
Top 20 borrower group exposures	Quarterly
Industry sector HHI*	Quarterly
Product distribution of the credit portfolio	Quarterly
Borrower distribution across rating grades	Quarterly
Collateral concentration	Quarterly

**The Herfindahl - Hirschman Index (HHI) is a measure of concentration, calculated by squaring the share of each sector and then summing up the resulting numbers*

Market risk

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, equity prices, and commodity prices.

As a financial intermediary, the Bank is exposed primarily to the interest rate risk and as an authorised dealer, is exposed to exchange rate risk on foreign currency portfolio positions. Market risk could impact the Bank mainly in two ways: viz, loss of cash flows or loss of economic value. Market risk can be looked at in two dimensions; as traded market risk, which is associated with the trading book and non-traded market risk, which is associated with the banking book.

The ALCO oversees the management of both the traded and the non-traded market risks. The Treasury manages the foreign exchange risk with permitted hedging mechanisms. Trends in relevant local as well as international markets are analysed and reported by IRMD and the Treasury to ALCO and BIRMC. The market risks are controlled through various limits. These limits are stipulated by the Investment Policy, Treasury Manual, and Overall Limits System of the Bank. Interest rate sensitivity analysis (Modified duration analysis), Value-at-Risk (VAR), simulation and scenario analysis, stress testing and marking-to-market of the positions are used as quantification tools for the purpose risk monitoring and management of market risks.

Treasury Middle Office (TMO) is segregated from the Treasury Front Office (TFO) and Treasury Back Office (TBO) and reports to the CRO. The role of the TMO includes the day-to-day operational function of monitoring and controlling risks assumed in the TFO based on clearly defined limits and controls. Being independent of the dealers, the TMO provides an objective view on front office activities and monitors the limits. TMO has the authority to escalate limit excesses as per delegation of authority to the relevant hierarchy.

TMO used to report market positions through a dashboard facility which has been phased out after the implementation of the Treasury System. The new system has enhanced TMO's capability to report crucial data with better accuracy and on real time basis. The strengthened Treasury and market risk management practices contribute positively to the overall risk rating of the Bank and efficiency in the overall Treasury operations. TBO which reports to the Chief Financial Officer is responsible for accounting, processing settlement and valuations of all Treasury products, and transactions. The Treasury transaction-related information is independently submitted by TBO to relevant authorities.

Interest rate risk

Interest rate risk can be termed as the risk of loss in the net interest income (earnings perspective) or the net worth (economic value perspective) due to adverse changes in the market interest rates. Interest rate risk can consist of –

- Repricing risk, which arises from the inherent mismatch between the Bank's assets and liability resulting in repricing timing differences
- Basis risk, which arises from the imperfect correlation between different yield and cost benchmarks attached to repricing of assets and liabilities
- Yield curve risk, which arises from shifts in the yield curve that have a negative impact on the Bank's earnings or asset values

The Bank manages its interest rate risks primarily through asset liability repricing gap analysis, which distributes interest rate sensitive asset and liability positions into several maturity buckets. Board defined limits are in place for interest rate gaps and positions, which are monitored on a periodic basis to ensure compliance to the prescribed limits.

The Asset and Liability Management (ALM) Unit routinely assesses the Bank's asset and liability profile in terms of interest rate risk and the trends in costs and yields are reported to ALCO for necessary realignment in the asset and liability structure and the pricing mechanism. ALM performed a number of scenario analysis and simulations on the effect of interest rate changes to the Bank's interest income during the year, to facilitate pricing decisions taken at ALCO.

Foreign exchange rate risk

Foreign exchange rate risk can be termed as possibility of adverse impact to the Group's capital or earnings due to fluctuations in the market exchange rates. This risk arises due to holding of assets or liabilities in foreign currencies. Net Open Position (NOP) on foreign currency indicates the level of net foreign currency exposure that has been assumed by the Bank at a point of time. This figure represents the unhedged position of the Bank in all foreign currencies. The Bank accrues foreign currency exposure through purchase and sale of foreign currency from customers in its commercial banking and international trade business and through borrowing and lending in foreign currency.

The Bank manages the foreign exchange risk using a set of tools which includes limits for net unhedged exposures, hedging through forward contracts and hedging through creating offsetting foreign currency assets or liabilities. TMO monitors the end of the day NOP as calculated by the TBO and the NOP movement in relation to the spot movement. TMO also conducts VAR for daily forex Position and the NOP. Stress testing is also performed on a daily basis and reported by TMO. The daily inter-bank foreign currency transactions are monitored for consistency with preset limits and any excesses are reported to the Management and to BIRMC.

DFCC Bank PLC has obtained approval from the Central Bank of Sri Lanka for its foreign currency borrowings and credit lines as per regulatory requirements. The unhedged foreign currency exposure of the Bank is closely monitored and necessary steps are taken to hedge in accordance with the market volatilities. In October 2013, the Bank issued a foreign currency international bond of USD 100 Mn with an original maturity of five years, which matured in October 2018. The Bank actively managed the exchange rate arising from a minor part of this transaction where a majority was hedged with the Central Bank. During the year the Bank put in place a plan after evaluating the options available for the repayment of the foreign currency bond which was settled successfully in October 2018.

Indirect exposures to commodity prices risk – Gold prices

The Bank's pawning portfolio amounted to LKR 3,194 Mn as at 31 December 2018, which was only 0.85% of total assets. The Market Risk Management Unit (MRMU) manages the risk emanating from Gold through constant analysis of the international and local market prices and adjusting the Bank's preferred Loan to Value (LTV) ratio. MRMU also conducts stress testing for the Gold portfolio by forecasting adverse Loss Given Default and PD rates. Stress results are reported to Senior Management via ALCO and BIRMC.

Equity prices risk

Equity prices risk is the risk of losses in the marked-to-market equity portfolio, due to the decline in the market prices. The direct exposure to the equity price risk by the Bank arises from the equity portfolios classified as fair valued through profit and loss and other comprehensive income. Indirect exposure to equity price risk arises through the margin lending portfolio of the Bank in the event of crystallisation of margin borrower's credit risk. The Investment Committee of the Bank is responsible for managing equity portfolio in line with the policies and the guidelines as set out by the Board and the BIRMC. Allocation of limits for equities taken as collateral for loans and margin trading activities of customers and for the Bank's investment/trading portfolio forms part of the tools for managing the equity portfolio. Rigorous appraisal, proper market timing and close monitoring of the portfolio performance in relation to the market performance facilitate the management of the equity portfolio within the framework of investment strategy and the risk policy.

Liquidity risk

Liquidity risk is the risk of not having sufficient funds to meet financial obligations in time and in full, at a reasonable cost. Liquidity risk arises from mismatched maturities of assets and liabilities. The Bank has a well set out framework for liquidity risk management and a contingency funding plan. The liquidity risk management process includes regular analysis and monitoring of the liquidity position by ALCO and maintenance of market accessibility. Regular cash flow forecasts, liquidity ratios and maturity gap analysis are used as analytical tools by the ALCO. Any negative mismatches up to the immediate three months revealed through cash flow gap statements are matched against cash availability either through incremental deposits or committed lines of credit. Whilst meeting the regulatory requirements relating to liquidity, for internal monitoring purposes, the Bank takes into consideration the liquidity of each eligible instrument relating to the market at a given point in time as well as undrawn commitments to borrowers when stress testing its liquidity position.

The maintenance of a strong credit rating and reputation in the market enables the Bank to access domestic wholesale funds. For short-term liquidity support the Bank also has access to the money market at competitive rates. In line with the long-term project financing business, the Bank focuses on long-term funding through dedicated credit lines while its growing share of commercial banking business focuses on Current Accounts and Savings Accounts (CASA) and Term Deposits as the key source of funding for its lending. The structure and procedures for Asset and Liability Management at the Bank have been clearly set out in the Board approved ALCO Charter, which is reviewed on an annual basis.

The CBSL Direction No. 07 of 2011 specifies that liquidity can be measured through stock or flow approaches. Under the stock approach, liquidity is measured in terms of key ratios which portray the liquidity in the balance sheet. Under the flow approach banks should prepare a statement of maturities of assets and liabilities placing all cash inflows and outflows in the time bands according to their residual time to maturity in major currencies. The Bank has adopted both methods in combination to assess liquidity risk.

Liquidity risk management under flow approach

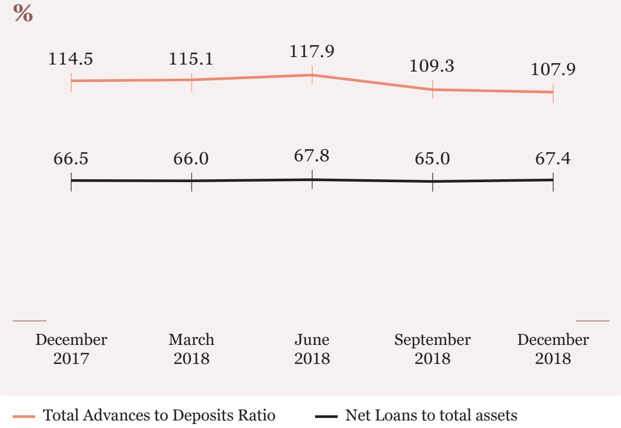
A statement of Maturities of Assets and Liabilities (MAL) is prepared by the Bank placing all cash inflows and outflows in the time bands according to their residual time to maturity and non-maturity items as per CBSL recommended and the Bank specific behavioural assumptions.

The gap analysis of assets and liabilities highlights the cash flow mismatches which assists in managing the liquidity obligations in a prudential manner.

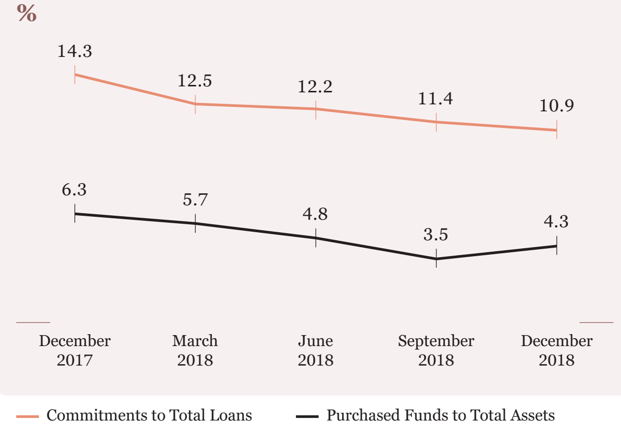
Liquidity ratios under stock approach

The Bank regularly reviews the trends of the following ratios for liquidity risk management under the stock approach in addition to the regulatory ratios. During the year, the Bank maintained liquidity indicators comfortably above the regulatory minimums and the internal limits defined by the risk appetite statement.

Liquidity ratios



Other liquidity ratios



The minimum liquidity standards (Liquidity Coverage Ratio) under Basel III were implemented from April 2015 and amended in November 2018. Accordingly, banks are required to maintain an adequate level of unencumbered High Quality Liquid Assets (HQLAs) that can be easily and readily converted into cash to meet their liquidity needs for a 30-calendar day time horizon under a significantly severe liquidity stress scenario. The computations of LCR performed for the Bank indicated that the Bank was comfortably in compliance with the Basel III minimum requirements, having sufficient High Quality Liquid Assets well in excess of the minimum requirements specified by the Central Bank of Sri Lanka (CBSL) throughout the year. (The minimum requirement is 90% and 100% of HQLAs to be maintained over the immediate 30-day net cash outflow for the years 2018 and 2019 respectively).

The Central Bank of Sri Lanka (CBSL) has issued consultative guidelines for Net Stable Funding Ratio (NSFR) in November 2017, which was implemented from April 2018, with an observation period until 31 December 2018. NSFR standards are designed to reduce funding risk over a longer time horizon by requiring banks to fund with sufficiently stable sources to mitigate the risk of future funding stress and requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet exposures. NSFR will be in force from January 2019 with a minimum requirement of 90% which will be increased to 100% from July 2019.

Key liquidity risk measurement tools and reporting frequencies

Liquidity risk measure/indicator	Minimum frequency
Stock approach – Ratios analysis	
Net loans to total assets	Quarterly
Loans to customer deposits	Quarterly
Liquid assets to short-term liabilities	Quarterly
Large liabilities to earnings assets excluding temporary investments	Quarterly
Purchased funds to total assets	Quarterly
Commitments to total assets	Quarterly
Trends in the statutory liquid assets ratio	Monthly
Trends in Liquidity Coverage Ratio (LCR) and forecasts	Monthly
Net Stable Funding Ratio (NSFR) - under parallel computation	Quarterly
Flow approach	
Maturity gap report (on static basis)	Quarterly
Net funding requirement through dynamic cash flows	Quarterly
Scenario analysis and stress testing	Quarterly
Contingency funding plan	Annual Review

The Bank has in place a contingency plan which provides guidance on managing liquidity requirements in stressed conditions based on different scenarios of severity. The contingency funding plan provides guidance in managing liquidity in bank specific or market specific scenarios. It outlines how assets and liabilities of the Bank are to be monitored, pricing strategies are to be devised and growth strategies to be reconsidered emphasising avoidance of a liquidity crisis based on the risk level. The management and reporting framework for ALCO identifies evaluating a set of early warning signals both internal and external in the form of a Liquidity Risk Matrix on a monthly basis in order to assess the applicable scenario ranging from low risk to extreme high liquidity risk and proposes a set of strategies to avoid and mitigate possible crises proactively. The action plan for each of the high risk contingency level scenarios is to be considered by a liquidity contingency management team which includes the CEO, Head of Treasury, CRO, Business unit Heads and a few other members of Senior Management. The liquidity contingency plan was further improved during the year with quantified scenarios and further specifying responsibilities of the liquidity contingency management team. During the year, the Bank did not come across a high liquidity risk scenario and the Bank had sufficient standby liquidity facility agreements (Reciprocal agreements) to buffer against sudden liquidity stresses.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, and external events. It covers a wide area ranging from losses arising from fraudulent activities, unauthorised trade or account activities, human errors, omissions, inefficiencies in reporting, technology failures or from external events such as natural disasters, terrorism, theft, or even political instability. The objective of the Bank is to manage, control and mitigate operational risk in a cost effective manner consistent with the Bank's risk appetite. The Bank has ensured an escalated level of rigour in operational risk management approaches for sensitive areas of its operations.

The Operational Risk Management Committee (ORMC) oversees and directs the Management of operational risk of the Bank at an operational level with facilitation from the Operational Risk Management Unit (ORMU) of the IRMD. Active representation of the relevant departments and units of the Bank has been ensured in the process of operational risk management through the Operational Risk Coordination Officers (ORCOs).

Segregation of duties with demarcated authority limits, internal and external audit, strict monitoring facilitated by the technology platform and back-up facilities for information are the fundamental tools of operational risk management. Audit findings of high risk nature and management responses are forwarded to the Board's Audit Subcommittee for their examination. Effective internal control systems, supervision by the Board, Senior Management and the line managers form part of First Line of Defence for operational risk management at the Bank. The Bank demands a high level of technical skills, professionalism and ethical conduct from its staff and these serve as insulators for many operational risk factors.

The following are other key aspects of the operational risk management process at DFCC Bank PLC:

- Monitoring of Risk and Control Self-Assessment (RCSA) and Key Risk Indicators (KRIs) for the functions under defined threshold limits using a "Traffic Light" system
- Maintaining internal operational risk incident reporting system and carrying out an independent analysis of the incidents by IRMD to recognise necessary improvements in the systems, processes and procedures

- Trend analysis on operational risk incidents and review at the ORMC
- Review of downtime of the critical systems and assessment of the reasons. The risk and business impact is evaluated. Rectification measures are introduced whenever the tolerance levels are compromised
- Review of HR attrition and exit interview comments in detail including a trend analysis with the involvement of the IRMD. The key findings of the analysis are evaluated at the ORMC in an operational risk perspective
- Establishment of the Bank's complaint management process under the Board Approved Complaints Management Policy. IRMD analyses the complaints received to identify any systemic issues and reports to ORMC
- Conduct product and process reviews in order to identify the operational risks and recommend changes to the products and related processes
- Evaluate the operational risks associated with any new product developments
- Maintaining an external loss database in order to take proactive action to mitigate operational risks that may arise from the external environment
- Assist in the Business Continuity Planning and Disaster Recovery (DR) processes and review the results of DR drills conducted in the Bank to provide recommendations for future improvements
- Conduct Fraud Risk Management Committee meetings periodically in order to identify potential fraud risks that might impact the Bank and to take timely remedial actions

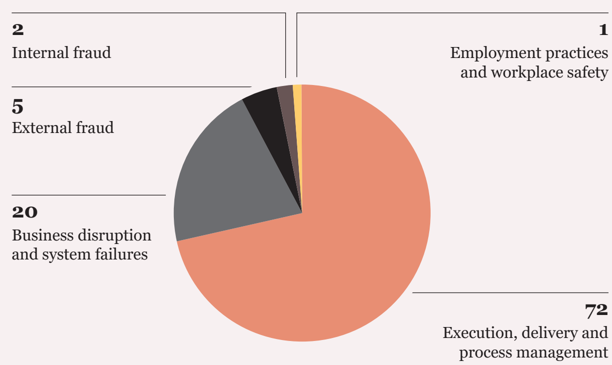
Operational risk reporting		
Risk identification	Risk assessment	Risk monitoring and controlling
→ Risk and Control Self-Assessments (RCSA) → Operational risk incident analysis(internal and external) → Risk analysis of products/services → Analysis of customer complaints	→ Evaluation of risks against the controls through RCSA → Key Risk Indicators (KRIs) → Incident assessment and escalation (internal and external) → Stress testing	→ Action plans based on incident analysis, RCSA and KRI → Insurance → Business Continuity Plan and periodic testing
Culture and awareness		
Policies and guidelines		

Operational risk losses

The Bank has improved its operational risk incident reporting system overtime by creating an increased level of awareness among the employees with regard to operational risks and the importance of incident reporting. A total of 127 incidents have been reported in 2018. The Bank has in place a well streamlined process of reporting and employees are continuously encouraged via training to report incidents as and when they happen. The Operational Risk Coordination Officers (ORCO) are also expected to send a monthly report to the Operational Risk Management Unit regarding operational risk related incidents if any taken place at their respective branches or departments. The operational risk incidents reported in 2018 based on the event type are categorised below:

Types of operational risk incidents

%



The majority of the incidents reported were as a result of a failure in the execution, delivery and process management, and they included near misses and no losses. However, the actual losses resulting from the operational risk events have been very marginal and there have been no significant losses incurred as a result of the existing stringent controls that are in place.

Risk and Control Self-Assessments (RCSA) and Key Risk Indicators (KRIs) process of the Bank

Monitoring of Risk and Control Self-Assessments (RCSA) and Key Risk Indicators (KRIs) in key functions of the Bank, was further strengthened during the year as a measure to allow the early detection of operational risks before actual failure occurs.

RCSA requires self-evaluation of operational risk exposures of processes in the Bank by respective departments semi-annually. Each department will assess the risks based on impact and likelihood of occurrence, while controls are assessed based on control design and control performance. The results are evaluated at ORMC for additional controls or mitigants in order to minimise risk exposure to the Bank.

Regular KRI monitoring, assists business line managers by providing them with a quantitative, verifiable risk measurement which will be evaluated against the thresholds. A summary of KRIs is presented to ORMC based on a traffic light system.

Insurance as a risk mitigant

Insurance policies are obtained to transfer the risk of low frequency and high severity losses which may occur as a result of events such as fire, theft/frauds, natural disasters, errors and omissions. Insurance plays a key role as an operational risk mitigant in banking context due to the financial impact that any single event could trigger.

Insurance policies in force covering losses arising from undermentioned assets/processes include –

- Cash and cash equivalents
- Pawned articles
- Premises and other fixed assets
- Public liability
- Employee infidelity
- Negligence
- Personal accidents and workmen’s compensation

The Insurance Unit of the Bank reviews the adequacy and effectiveness of insurance covers on an annual basis and carries out comprehensive discussions with insurance companies on any revisions required at the time of renewal of the insurance covers.

Outsourcing of business functions

Outsourcing takes place when the Bank uses another party to perform non-core banking functions that would traditionally have been undertaken by the Bank itself. As a result, the Bank will be benefited in focusing on its core banking activities while having the non-core functions being taken up by outside experts.

The Bank has outsourced some business functions under its outsourcing policy after evaluating whether the services are suitable for outsourcing based on an assessment of the risks involved. Further, undertaking due diligence tests on the companies concerned such as credibility and ability of the owners, BCP arrangements, technical and skilled manpower capability and financial strength. Cash transportation, archival of documents, certain IT operations, security services, and selected recovery functions are some of the outsourced activities of the Bank. The Bank is concerned and committed in ensuring that the outsourced parties continue to uphold and extend the high standard of customer care and service excellence.

A comprehensive report on outsourced activities is periodically submitted to the CBSL for their review while adhering to Banking Direction on Outsourcing of Business Operations.

Key operational risk measurement tools and reporting frequencies

Operational Risk Measure/Indicator	Frequency
Operational risk incidents reported during the period (External and internal)	Quarterly
Risk and control self assessments and key risk indicators	Semi annually
Status and reports of any BCP/DR activities undertaken	As required
Customer complaints during the period	Quarterly
System and ATM downtime reports	Quarterly

Management of Information Systems Security (ISS) risk under IRMD

Information security risk management (ISRM) is the process of managing the risks associated with the use of information technology and evaluates risks to the confidentiality, integrity and availability (CIA) of Bank’s information assets.

Main objectives of ISRM is to ensure compliance with regulatory and contractual requirements while adopting industry security best practices and align information security risk management with corporate risk management objectives.

ISRM is an ongoing process of identifying, assessing, and responding to security risks. To manage risks effectively, Bank has adopted international security standard requirements such as ISO 27001:2013 and

PCI-DSS while been compliance with Central Bank's Baseline Security Standard (BSS) and Payment related mobile application security guideline.

Bank's ISRM strategy focuses on following activities:

- Establish and manage the Information Security Management System (ISMS) based on ISO 27001:2013 and PCI Data Security Standards.
- Development of information security policies, procedures and guidelines according to information security standards.
- Identification of security risks related to the Bank's information assets and projects and propose or implement controls to maintain residual risks at acceptable levels.
- Management of information security incidents and periodic information security risk assessments.
- Set and monitor information security KPIs and report the status of the indicators to the Information Technology Steering Committee (ITSC) and ORMC.
- Perform trend analysis on information security incidents and reporting, which are regularly reviewed at the ORMC and the BIRMC.

The established information security management system provides a systematic approach to managing sensitive company information by covering all aspects including people, processes, technology and information systems.

Reputational risk

Reputational risk is the risk of losing public trust or tarnishing of the Bank's image in the public eye. It could arise from environmental, social, regulatory, or operational risk factors. Events that could lead to reputational risk are closely monitored, utilising an early warning system that includes inputs from frontline staff, media reports, and internal and external market survey results. Though all policies and standards relating to the conduct of the Bank's business have been promulgated through internal communication and training, a specific policy was established to take action in case of an event which hinders the reputation. The Bank has zero tolerance for knowingly engaging in any business, activity, or association where foreseeable reputational damage has not been considered and mitigated. While there is a level of risk in every aspect of business activity, appropriate consideration of potential harm to the Bank's good name is a part of all business decisions. The complaint management process and the whistle blowing process of the Bank include a set of key tools to recognise and manage reputational risk. Based on the operational risk incidents, any risks which could lead to reputational damage are presented to the Board and suitable measures are taken by the Bank to mitigate and control such risks.

Business risk

Business risk is the risk of deterioration in earnings due to the loss of market share, changes in the cost structure and adverse changes in industry or macroeconomic conditions. The Bank's medium-term strategic plan and annual business plan form a strategic roadmap for sustainable growth. Continuous competitor and customer analysis and monitoring of the macroeconomic environment enables the Bank to formulate its strategies for growth and business risk management. Processes such as Planning, ALM, IT and Product Development in collaboration with business functions facilitate the management of business risk through recognition, measurement, and implementation of tasks. Business risk relating to customers is assessed in the credit rating process and is priced accordingly.

Legal risk

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Bank. Legal risk management commences from prior analysis, and a thorough understanding of, and adherence to related legislation by the staff. Necessary precautions are taken at the design stage of transactions to minimise legal risk exposure.

In the event of a legal risk factor, the Legal Unit of the Bank takes immediate action to address and mitigate these risks. External legal advice is obtained or counsel retained when required.

Compliance risk

Compliance from a banking perspective can be defined as acting in accordance of a law, rule, regulation or a standard. Basel Committee on Banking Supervision in 2005 defines "compliance risk" as "the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules related self regulatory organisation standards, and Codes of Conduct applicable to its banking activities".

Bank's governing principles on compliance are to: Ensure compliance starts from top, to emphasise standards of honesty and integrity and hold itself to high standards when carrying on business, at all times strive to observe the spirit as well as the letter of the law. Further it sets compliance as an integral part of the Bank's business activities and part of the culture of the Organisation and at all times will be observing proper standards of market conduct, managing conflicts of interest, treating customers fairly, and ensuring the suitability of customer advice.

Bank's Board of Directors is responsible for overseeing the management of Bank's compliance risk. Towards this; Board has delegated its powers to the Board Integrated Risk Management Committee which takes appropriate action to establish a permanent, independent and effective compliance function in the Bank, ensure that compliance issues are resolved effectively and expeditiously by Senior Management of the Bank with the assistance of the compliance function and assess the extent to which the Bank is managing its compliance risk effectively.

The Bank's Corporate/Senior Management is responsible for the effective management of the Bank's compliance risk and an independent robust compliance culture has been established within the Bank with processes and work flows designed with the required checks and balances to facilitate compliance. The compliance function works closely with the business and operational units to ensure consistent management of compliance risk.

Scope of the Compliance Function encompasses legislative enactments; rules, regulations, directions, determinations, operating instructions, circulars issued by regulators; Bank's internal policies, circulars, guidelines; Industry best practices and standards issued by professional bodies; and International regulations. In order to manage the compliance risk of the Bank, Compliance function on a proactive basis, identifies, documents and assesses the compliance risks associated with the Bank's business activities, including the development of new products and business practices. It has set in place, a Compliance Programme based on a risk-based approach to be carried out under a set of scheduled activities annually, that consists of, compliance testing, branch visits, verification of returns, developing and reviewing compliance KRIs and methodologies, ensuring of timely submission of regulatory returns, clarifications of regulatory circulars, reporting to Board and/or Subcommittee and educating staff on compliance matters, conducting Bank wide compliance training. It also manages and ensures information accuracy of the Data submitted to the Credit Information Bureau of Sri Lanka.

One of the critical functions of the compliance is to manage and assess the Bank's Anti-money Laundering and Counter Financing Terrorism compliance, so as to ensure the compliance to international recommendations of the Financial Action Task Force as well as domestic legislative enactments. Board of Directors, Senior Management and all staff take serious note on the AML/CFT compliance and on-going basis develop, review and improve policies, procedures, systems towards minimising the AML risk and thereby avoid reputation risk.

Business continuity management

The Business Continuity Plan (BCP) of the Bank ensures timely recovery of critical operations that are required to meet stakeholder needs based on identified disruptions categorised into various severity levels. BCP has been designed to minimise risk to human and other resources and to enable the resumption of critical operations within reasonable time frames specified according to Recovery Time Objectives (RTOs) with minimum disruption to customer services and payment and settlement systems. The Disaster Recovery (DR) site, which is located in a suburb of Colombo is used for periodic testing drills. These DR drills are subject to independent validation by the Internal Audit Department. A report on the effectiveness of the drill is submitted to the BIRMC/Board and also to the Central Bank with the observations. Learnings and improvements to disaster recovery activities are discussed and implemented through the ORMC and BIRMC. Training is carried out to ensure that employees are fully aware of their role within the BCP.

Stress testing of key risks

DFCC Bank PLC has been conducting stress testing on a regular basis. The Bank has in place, a comprehensive Stress Testing Policy and Framework, which is in line with the regulatory guidelines as well as international best practices. The Policy describes the purpose of stress testing and governance structure and the methodology for formulating stress tests, whilst the framework specifies in detail the Stress Testing Programme including the stress tests, frequencies, assumptions, tolerance limits and remedial action.

Stress testing and scenario analysis have played a major role in the Bank's risk mitigation efforts. Stress testing has provided a dynamic platform to assess, "What If" scenarios and to provide the Bank with an assessment on areas to improve. The Bank covers a wide range of stress tests that checks the resilience of the Bank's capital, liquidity, profitability, etc.

The outcome of stress testing process is monitored carefully and remedial actions taken and used by the Bank as a tool to supplement other risk management approaches.

The details of stress tests carried out by the Bank as at 31 December 2018 are given below:

Risk area and methodologies adopted	Results
Credit and concentration risk	
→ Impact of increase in the Non-Performing Assets (NPAs) → Impact to the Bank due to fall in value of collaterals of NPA → Sector concentration, concentration of credit ratings, concentration of products, concentration of borrowers such as the top 10 clients → Capital Adequacy Ratios (CAR) was stressed to see if the ratio falls below the regulatory level → Additional capital was computed for all extreme concentration risks and was reported to Senior Management	→ The CAR remained above the minimum regulatory limit even under stressed conditions
Market risk	
→ Stress testing and VAR calculations of currency exposure → Stress testing and VAR calculations for equity portfolio → Change of interest rates and its effect on Bank's profitability and capital	→ VAR on currency exposure and equity portfolio were within the Bank's acceptable risk matrices → Change of interest rates did not affect the Capital of the Bank significantly.
Operational risk	
→ Stress on Bank's Capital against increase of possible operational losses	→ No significant effect on capital and is well within the Bank's risk absorption capability
Liquidity risk	
→ Stress on liquidity due to settlement risk, decline in collections and bulk deposit redemption → Stress on liquid assets ratio due to run on liabilities → Erosion of deposits due to sudden reputation risk and associated liquidity risks	→ Liquid asset ratio was maintained above 20% at low level of shock while slightly falls below at medium level of shock. At high level of shock the ratio can fall below 20%, which is extreme and highly unlikely
Multifactor stress testing	
→ Combined stress of all risks	→ Except for the worst case scenario, the regulatory capital was not breached. The worst case scenario is an extreme scenario where all types of risks will emerge under extreme conditions at the same time

The findings of the Bank's stress testing activities are an input into several processes including capital computation under Internal Capital Adequacy Assessment Process (ICAAP), strategic planning and risk management among others. As an integral part of ICAAP under Pillar II, stress testing is used to evaluate the sensitivity of the current and forward risk profile relative to the stress levels which are defined as low, moderate and high in the Stress Testing Policy. The resultant impact on the capital through these stress tests is carefully analysed and the BIRMC conducts regular reviews of the stress testing outcomes including the major assumptions that underpin them.

As it provides a broader view of all risks borne by the Bank in relation to its risk tolerance and strategy in a hypothetical stress situation, stress testing has become an effective communication tool to Senior Management, Risk owners and risk managers as well as supervisors and regulators. The results of the stress testing are reported to the BIRMC and the Board on a quarterly basis for appropriate and proactive decision-making.

DFCC Bank's risk capital position and financial flexibility

The Bank adopts a proactive approach to ensure satisfactory risk capital level throughout its operations. In line with its historical practice and the capital targets, the Bank aims to maintain its risk capital position higher than the regulatory minimum requirements for Tier I and total capital under Basel guidelines.

As at 31 December 2018, DFCC Bank PLC maintained a healthy risk capital position of 10.766% Tier I capital ratio and 16.065% total capital ratio based on the Basel III regulatory guidelines. This demonstrates a cushion of about 2.891% and 4.190%, respectively, for Tier I and total capital over the minimum regulatory requirements.

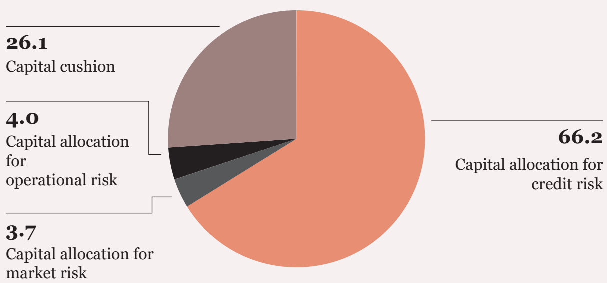
Capital adequacy measures the adequacy of the Bank's aggregate capital in relation to the risk it assumes. The capital adequacy of the Bank has been computed under the following approaches of the Basel regulations which are currently effective in the local banking industry:

- Standardised approach for credit risk
- Standardised approach for market risk
- Basic Indicator approach for operational risk

The graph below shows the Bank's capital allocation and available capital buffer as at 31 December 2018, based on the quantified risk as per the applicable regulatory guidelines. Out of the regulatory risk capital (total capital) available as at 31 December, capital allocation for credit risk is 66.2% of the total capital while the available capital buffer is 26.1%.

Capital distribution

%



Capital adequacy management

BASEL III is the new global regulatory standard on managing capital and liquidity of banks which is currently in effect. With the introduction of BASEL III from mid 2017, the capital requirements of banks have increased with an aim to raise the quality, quantity, consistency and transparency of capital base and improve the loss absorbing capacity.

Additionally, the Pillar II (Supervisory Review Process - SRP) under the Basel regulations requires banks to implement an internal process, called the Internal Capital Adequacy Assessment Process (ICAAP), for assessing capital adequacy in relation to the risk profiles as well as a strategy for maintaining capital levels. The Bank has in place an ICAAP, which has strengthened the risk management practices and capital planning process. It focuses on formulating a mechanism to assess the Bank's capital requirements covering all relevant risks and stress conditions in a futuristic perspective in line with the level of assumed risk exposures through its business operations. The ICAAP formulates the Bank's capital targets, capital management objectives and capital augmentation plans.

The ICAAP of DFCC Bank PLC demonstrates that the Bank has implemented methods and procedures to capture all material risks and adequate capital is available to cover such risks. This document integrates Pillar I and Pillar II processes of the Bank wherein Pillar I deals with regulatory capital, primarily covering credit, market and operational risks whilst Pillar II deals with economic capital involving all other types of risks.

As per the direction issued by CBSL, under supervisory review of Basel III, CBSL encourages banks to enhance their risk management framework and manage emerging risks in a more proactive manner. This is to ensure that the Bank maintains adequate capital buffer in case of a crisis while more importance has been placed on Pillar II and ICAAP. The Bank uses a mix of quantitative and qualitative assessment methods to measure Pillar II risks. A quantitative assessment approach is used for concentration risk, liquidity risk and interest rate risk whilst qualitative approaches are used to assess the risks such as reputational risk and strategic risk.

The Senior Management team is closely involved in formulating risk strategy and governance, thereby considering the Bank's capital planning objectives under the strategic planning process. Capital forecasting for the next three years covering envisaged business projections is considered in the budgeting process. This forward-looking capital planning helps the Bank to be ready with additional capital requirements in the future. It integrates strategic plans and risk management plans with the capital plan in a meaningful manner with inputs from Senior Management, Management Committees, Board Committees and the Board.

The Banking Act Direction No. 01 of 2016 introduced capital requirements under Basel III for Licensed Commercial Banks, commencing from 1 July 2017 with specified timelines to increase minimum capital ratios to be fully implemented by 1 January 2019. The capital forecast performed under the ICAAP process has indicated the ability of the Bank to maintain a comfortable level of capital cushion in the next few years, while proposing suitable capital augmentation plans. As recommended by ICAAP to enhance total capital, the Bank issued a Basel III compliant convertible debt of LKR 7 Bn and to enhance Tier 1 capital, classified 5% ownership of the commercial bank investment as "Fair Value Through Profit and Loss" under IFRS 9, to sell based on market conditions.

Capital adequacy ratio and risk-weighted assets of DFCC Bank PLC on a solo and group basis under Basel III

Quantified as per the CBSL Guidelines	31 December 2018		31 December 2017	
	Bank	**Group**	Bank	Group
Credit risk-weighted assets (LKR Mn)	**262,980**	**263,747**	237,482	237,671
Market risk-weighted assets (LKR Mn)	**14,904**	**14,904**	8,110	8,110
Operational risk-weighted assets (LKR Mn)	**15,940**	**16,229**	14,783	15,508
Total risk-weighted assets (LKR Mn)	**293,824**	**294,880**	260,375	261,289
Total Tier I capital adequacy ratio – Basel III	**10.766%**	**10.888%**	12.681%	13.093%
Total capital adequacy ratio – Basel III	**16.065%**	**16.168%**	16.128%	16.529%

Financial flexibility in the DFCC Group's capital structure

The Bank has access to contributions from shareholders as well as it possesses built-up capital reserves over a period of time by adopting prudent dividend policies, maintaining an increased level of retained profits and issuing Tier II eligible capital instruments as and when necessary. The Bank is reasonably comfortable with the current and future availability of capital buffer to support an ambitious growth or withstand stressed market conditions.

Apart from the strong capital position reported on-balance sheet, the Bank maintains financial flexibility through the stored value in its equity investment portfolio. The unrealised capital gain of the listed equity portfolio is included in the fair value reserve and currently only a part has been taken into consideration in the capital adequacy computation under Basel III based on regulatory specifications.

Assessment of integrated risk

In the process of assessment of integrated risk, the Bank reviews key regulatory developments in order to anticipate changes and their potential impact on performance. The nature and impact of changes in economic policies, laws and regulations, are monitored and considered in the way the Bank conducts business and manages capital and liquidity.

The Bank has complied with all the currently applicable risk-related regulatory requirements while to closely monitoring the internal limits as shown in the table below:

Risk category	Impact	Key risk indicators	Regulatory/ Internal limit
Integrated risk management	An adequate level of capital is required to absorb unexpected losses without affecting the Bank's stability. (Total capital as a percentage of total risk-weighted assets.)	Common Equity Tier I Ratio (Common Equity Tier I as a percentage of total risk-weighted assets)	Regulatory
		Total Tier I Capital Ratio (Total Tier I capital as a percentage of total risk-weighted assets)	Regulatory
		Total Capital Ratio (Total capital as a percentage of total risk-weighted assets)	Regulatory

Risk category	Impact	Key risk indicators	Regulatory/ Internal limit
Concentration/ Credit risk management	When the credit portfolio is concentrated on a few borrowers or a few groups of borrowers with large exposures, there is a high risk of a substantial loss due to failure of one such borrower.	Single Borrower Limit – Individual (Amount of accommodation granted to any single company, public corporation, firm, association of persons or an individual/capital base)	Regulatory
		Single Borrower Advisory Limit – Individual (Amount of accommodation granted to any single company, public corporation, firm, association of persons or an individual/capital base)	Internal
		Single Borrower Limit – Group	Regulatory
		Single Borrower Advisory Limit – Group	Internal
		Aggregate large accommodation limit (Sum of the total outstanding amount of accommodation granted to customers whose accommodation exceeds 15% of the capital base/outstanding amount of accommodation granted by the Bank to total customers excluding the Government of Sri Lanka)	Regulatory
		Aggregate limits for related parties (Accommodation to related parties as per the CBSL Direction/Regulatory Capital)	Internal
		Exposure to agriculture sector as defined by CBSL Direction.	Regulatory
		Exposure to each industry sector (On-balance sheet exposure to each industry as a percentage of total lending portfolio)	Internal
		Exposure to selected regions (On-balance sheet exposure to the regions as a percentage of the total lending portfolio)	Internal
		Leases Portfolio (On-balance sheet exposure to the leasing product as a percentage of total lending portfolio plus securities portfolio)	Internal
		Exposure to GOSL	Internal
		Exposure to private institutions in Maldives	Internal
		Non-Performing Ratio	Internal
		Industry HHI	Internal
		Maximum expected loss limits for each product line	Internal
		Loan and OD – Exposure in B and below grades	Internal
		Leasing – Exposure in BB and below grades	Internal
		Leasing – Exposure in B and below grades	Internal
		Limit on margin lending for individual borrowers	Regulatory
		Margin trading (Aggregate exposure of margin loans extended/total loans and advances)	Internal
Liquidity risk management	If adequate liquidity is not maintained, the Bank will be unable to fund the Bank's commitments and planned assets growth without incurring additional costs or losses.	Liquid Asset Ratio for DBU (Average monthly liquid assets/total monthly liabilities)	Regulatory
		Liquid Asset Ratio for FCBU	Regulatory
		Liquidity Coverage Ratio (All currencies and Rupee only)	Regulatory
		Single Depositor Limit (Highest Single Depositor/Total fixed deposits)	Internal
		Statutory Reserve Ratio	Regulatory
		Foreign Currency Borrowing Limit – Total Borrowings	Regulatory
		Clean Money Market Borrowing Limit	Internal

Risk category	Impact	Key risk indicators	Regulatory/ Internal limit
Market risk management		Forex Net Open Long Position	Regulatory
		Forex Net Open Short Position	Regulatory
		Limit for counterparty off-balance sheet market risk	Internal
		Maximum Day Delivery Risk Limit	Internal
		Max holding period for trading portfolio	Internal
		Maximum Fx Swap	Internal
		Treasury trading securities portfolio	Internal
Investment risk		Equity exposure – Individual (Equity investment in a private or public company/Capital funds of the Bank)	Regulatory
		Equity exposure – Individual (Equity investment in a private or public company/Paid-up capital of the Company)	Regulatory
		Aggregate equity exposure in public companies (Aggregate amount of equity investments in public companies/capital funds of the Bank)	Regulatory
		Equity exposure (Equity exposure as a percentage of Total Lending Portfolio plus Securities Portfolio)	Internal
		Equity exposure in each sector	Internal
		Single equity exposure out of the quoted equity portfolio	Internal
Operational efficiency		Operational efficiency ratio	Internal
Operational risk	Adequately placed policies, processes and systems will ensure and mitigate against excessive risks which may result in direct financial impact, reputational damages and/ or regulatory actions	Regulatory breaches (Zero risk appetite)	Internal
		Inability to recover from business disruptions over and above the Recovery Time Objectives (RTO) as defined in the BCP of the Bank (Zero risk appetite)	Internal
		Internal fraud (Zero tolerance for losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Bank policy, excluding diversity/discrimination events, which involve at least one internal party)	Internal
		External fraud (Very low appetite for losses due to act of a type intended to defraud misappropriate property or circumvent laws, by a third party)	Internal
		Employee practices and workplace safety (Zero appetite for losses arising from acts inconsistent with employment, health or safety laws or agreements from payment of personal injury claims, or from diversity/discrimination events)	Internal
		Client products and business practices (Zero risk appetite for losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements) or from the nature or design of a product)	Internal
		Damage to physical assets (Very low appetite for loss arising from loss or damage to physical assets from natural disaster or other events)	Internal
		Business disruption and systems failures (Low appetite for business disruptions/system failures for more than 30 minutes during service hours)	Internal
		Execution, delivery and process management (Low appetite for losses from failed transaction processing or process management)	Internal

Corporate Governance

Chairman's statement

I am pleased to introduce the Bank's Corporate Governance Report on behalf of our Board. The Corporate Governance Report provides an insight into how the Board operated and the key issues considered during the year.

The Board sets the example for employees of the Bank by implementing the highest standards of business ethics and corporate governance.

As I said last year, high standards of corporate governance continue to be a key priority for the Board. Corporate governance practices of the Bank are in accordance with the Board approved Corporate Governance Charter of the Bank.

The Bank's corporate governance framework is well-structured and is supported by a strong focus on integrity, transparency, and clear and timely communication.

We continually review the framework within which we operate and the processes implemented to ensure that they reflect the complexities of our business and meet the needs of our stakeholders.

I confirm to the best of my knowledge that there were no material violations of any of the provisions of the Directions of the Central Bank of Sri Lanka, other applicable laws and regulations, Codes of Conduct and other related policies and procedures of the Bank.

C R Jansz

Chairman

18 February 2019

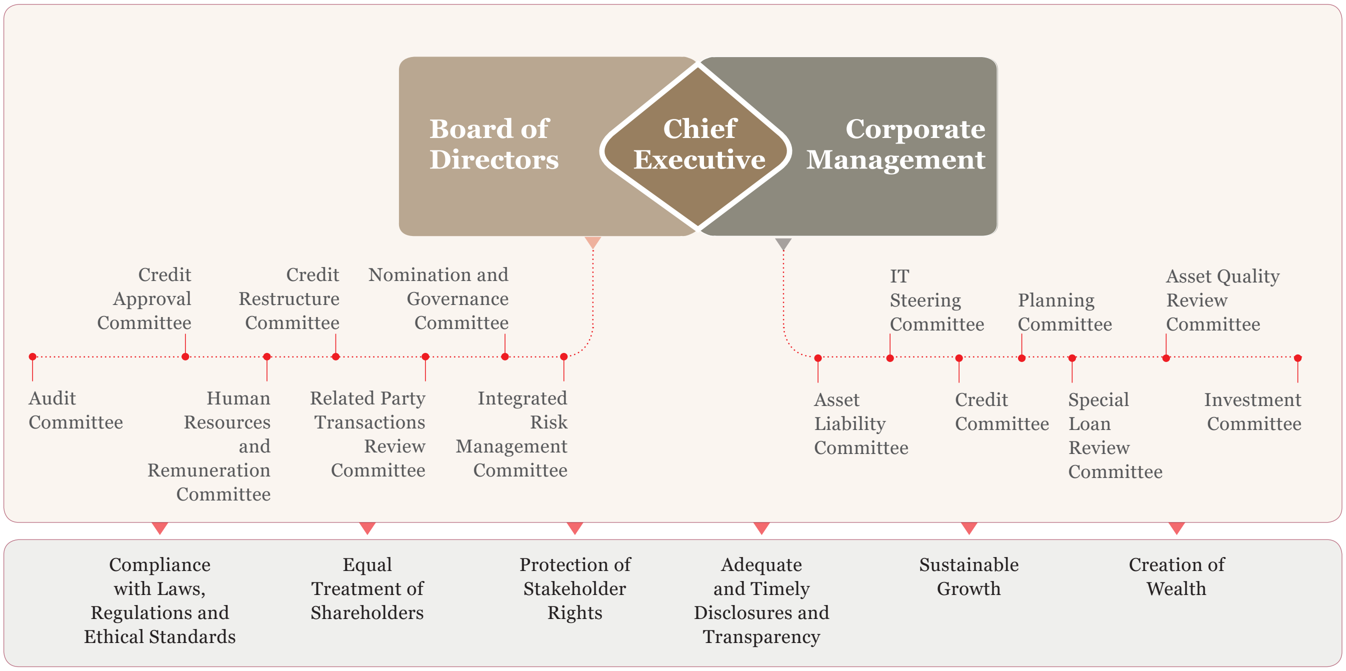
Governance framework of the Bank

Good corporate governance is a mechanism that harmonises the interests of a wide range of stakeholders of an institution, while contributing to sustainable growth by attracting outside sources of capital. The Bank practices high standards of corporate governance based on the OECD principles of good governance.

OECD principles of good governance are based on the following six guidelines:

- Promoting transparency, being consistent with laws, and clearly articulating division of responsibilities
- Protecting and facilitating the exercise of shareholder rights and ensuring equitable treatment of all shareholders
- Exercising due diligence and responsibility in capital market operations
- Recognising the rights of stakeholders and encouraging cooperation between stakeholders in creating wealth and sustainability
- Timely and accurate disclosure on all material matters regarding the Bank including financial situation, performance, ownership, and governance
- Ensuring the strategic guidance of the Bank, effective monitoring of management of the Board, and the Board's accountability to the Bank and its shareholders

DFCC Bank's goals of good corporate governance



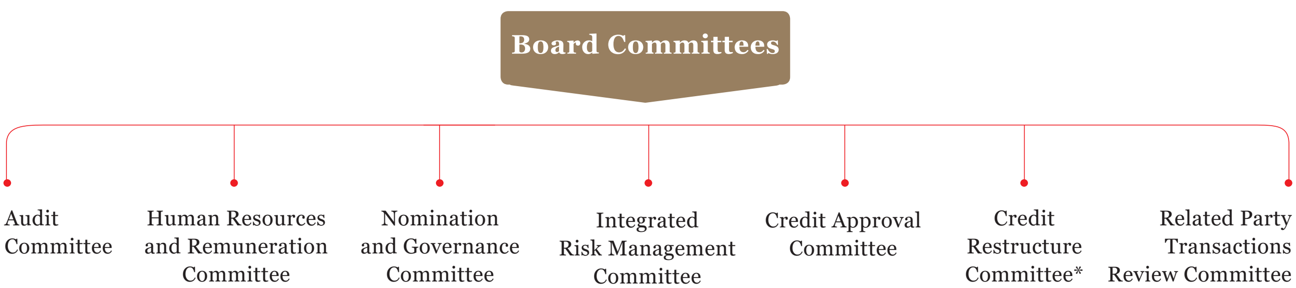
Conduct and ethical framework

The Code of Conduct for Directors adopted by the Bank which the Directors are expected to abide by, encompasses the following:

- Compliance with laws, rules and regulations
- Avoidance of conflicts of interest
- Maintenance of confidentiality of information
- Fair dealing with stakeholders
- Protection of the Bank's assets

Employee behaviour is governed by a separate Code of Conduct including other policies and procedures such as the Disciplinary Code, Statement Prohibiting Insider Trading, Whistleblowing Policy, Anti-Money Laundering Policy, Compliance Policy, Disclosure Policy etc.

Permanent Board Committees as at 31 December 2018



** The Credit Restructure Committee approves papers by circulation.*

Name of Director	Attendance of Directors at meetings						
	Main Board	Audit Committee	Human Resources and Remuneration Committee	Nomination and Governance Committee	Integrated Risk Management Committee	Credit Approval Committee	Related Party Transactions Review Committee
Total Number of meetings	14	12	7	9	4	13	18
K P Cooray	11/14		7/7	7/9		12/13	15/18
T Dharmarajah	13/14	10/12			4/4		16/18
J Durairatnam	6/6					4/4	
Ms L K A H Fernando	13/14	12/12			4/4		
P M B Fernando	14/14	12/12		9/9		13/13	14 /15
C R Jansz	14/14		7/7	9/9		13/13	17/18
N K G K Nemmawatta	8/9						
Ms V J Senaratne	12/14				4/4		
L H A L Silva	14/14				4/4		16/18
Ms S R Thambiayah	14/14		5/7				

Attended/Eligible to attend

Shareholder rights

The basic rights of shareholders include – (a) the ability to transfer shares freely, (b) to have access to financial and other relevant information about the entity on a regular and timely basis, (c) the ability to effectively participate in shareholder meetings, (d) appoint Directors and Auditors, and (e) equitable treatment relating to the type of shares owned.

The shares of the Bank are freely transferable through the Colombo Stock Exchange but subject to limitations stated in the Articles of Association of the Bank and the Banking Act.

The Board approved Corporate Communications Policy ensures that information relating to the financial performance and the progress of the Bank is made available to shareholders through timely disclosures made to the Colombo Stock Exchange (CSE). The Annual Report contains a comprehensive review of performance as well as other information of relevance to the other stakeholders apart from reporting on the financial condition of the Bank and the Group. All important information is given publicity through the press and electronic media and posted on the Bank's website.

The Bank has procedures to promptly disseminate price sensitive information and trading in shares by the Directors to the CSE as required by the Listing Rules. In instances where this is not possible, the Chief Financial Officer advises closed periods for trading in the Bank's shares by employees and Directors. The Board has formally adopted a Statement of Policy Prohibiting Insider Trading. As a general rule, the period after the end of each quarter up until two market days after the financial information is released, is treated as closed periods. Procedures are in place to detect any violations.

During the year under review, the Bank has shared a reasonable portion of its profit with shareholders in the form of a dividend while retaining the balance to support its growth and development.

All shareholders of the Bank are treated equally on the basis of one vote per ordinary share. The Bank has not issued any non-voting ordinary shares or preference shares.

Annual General Meeting

The Annual General Meeting of the Bank is normally held within a period of one year from the date of the previous meeting after giving adequate notice to shareholders as required by the Articles of Association. The Annual Report and Notice of Meeting are sent to all shareholders in order to enable effective shareholder participation at the meeting. Shareholders have the opportunity to obtain the Annual Report as an electronic or printed document. Extraordinary General Meetings are held to obtain shareholder approval on matters that require such approval.

Annual Corporate Governance Report for the year ended 31 December 2018 published in terms of Section 3 (1) (xvi) of the Banking Act Direction No. 11 of 2007

Rule	Governance principle	Compliance	Remarks
3.1 Responsibilities of the Board			
3.1 (i)	Safety and soundness of the Bank The Board has strengthened the safety and soundness of the Bank through the implementation of the following:		
	(a) Strategic objectives and corporate values	Compliant	The Bank sets its strategic objectives and goals through the Annual Business Plan which is approved by the Board. These goals and the corporate values approved by the Board are communicated to the business units and other staff. The corporate values are posted on the internal web and all employees are guided by these values.
	(b) Overall business strategy	Compliant	The Bank's strategic plan for the medium term was approved by the Board in January 2018. The Board engages in the strategic planning and control of the Bank by overseeing the formulation of business objectives and targets, assessing risks by engaging qualified and experienced personnel, delegating them with the authority for conducting operational activities and monitoring the performance through a formal reporting process. A separate item has been included in the agenda at every Board meeting under the heading "Strategic Discussion" to take up any matter of strategic importance to the Bank. Directors are encouraged to identify and communicate any matter they consider to be of strategic importance.
	(c) Principal risks	Compliant	The identification of principal risks, approving of overall risk policy and risk appetite is carried out through the Board Integrated Risk Management Committee and reviewed annually.
	(d) Communication with stakeholders	Compliant	The Board approved Corporate Communications Policy ensures that information is made available to shareholders and other stakeholders through timely disclosures made to the Colombo Stock Exchange (CSE), by publicity through the press and electronic media and posts on the Bank's website. The Bank has an internally developed Code of Conduct for its employees which is posted on the internal web and is accessible by all employees. The Bank has also adopted a separate Code of Conduct for the Directors. During the year, the Code was reviewed and expanded, further bringing it in sync with modern trends.
	(e) Bank's internal control and management information systems	Compliant	The Audit Committee assists the Board in reviewing and evaluating the integrity, adequacy, and effectiveness of the internal control system including management information systems and controls over financial reporting of the Bank. The internal audit carries out periodic reviews to ensure that the internal control systems are functioning as appropriate. The Report by the Board of Directors on internal control over financial reporting is given on page 123 The Independent Assurance Report by the External Auditor on the Directors Statement on Internal Control is given on page 126.

Rule	Governance principle	Compliance	Remarks
	(f) Key Management Personnel (KMP)	Compliant	The Board has identified and designated its Key Management Personnel.
	(g) Authority and responsibility	Compliant	Areas of authority and key responsibilities of Directors have been set out in the Corporate Governance Charter which has been adopted by the Board. During the year the Charter was reviewed and updated. The Board has also identified matters specifically reserved for the Board. The duties and responsibilities of other KMPs are formally documented in their job descriptions. Delegation of authority levels for KMPs has also been clearly specified in Board approved circulars.
	(h) Oversight of the affairs of the Bank by KMPs	Compliant	Oversight is exercised through Board committees, reporting to the Board as appropriate. Policies and decisions of the Board requiring appropriate follow up are communicated by the Board Secretary to the relevant KMPs. Minutes of relevant management committee meetings headed by the Chief Executive Officer (CEO) are submitted to the Board for information. KMPs are called upon to clarify matters and make presentations on matters within their purview at the monthly Board meetings.
	(i) Board's own governance practices	Compliant	An annual self-assessment is carried out on a structured format where the Directors submit their individual responses direct to the Board Secretary. The responses are collated by the Board Secretary and submitted to the Board. The effectiveness of the Board's own governance practices are reviewed by the Board and areas for improvement are discussed for necessary action. During this year too, in addition to the assessments carried out by the individual members, the Nomination and Governance Committee, based on a separate checklist, carried out an evaluation of the Board and the results were shared with the other members of the Board and an opportunity was provided to them to comment on the findings of the Committee.
	(j) Succession plan for KMPs	Compliant	The Bank has in place a succession plan for Senior Management which is reviewed annually by the Nomination and Governance Committee and approved by the Board. The Committee which was formed comprising a member of the Audit Committee, CEO and Head of HR to improve the process of succession planning met during the year and reviewed the progress on the development initiatives that have been put in place.
	(k) Regular meetings with KMPs to monitor progress	Compliant	Meetings are attended by relevant executives when required. Additional information sought by Directors on papers submitted to the Board is clarified by the respective officers. The Board has free access to Senior Management. The business initiative Board committees established to drive key business areas relating to SME business, and media and branding, continued to function during the year and the members of these committees met KMPs on a regular basis to review the status of implementation of identified strategies. During the year, the Board held quarterly review meetings in order to monitor progress against the business plan. These meetings provided an opportunity for the Board members to interact with the Senior Management to clarify reasons for variations against the budget and to suggest corrective action.

Rule	Governance principle	Compliance	Remarks
	(l) Regulatory environment	Compliant	The Board Secretary provides all regulatory information required to the Board members. The CEO briefs the Board on specific issues. Senior Management maintains continuous dialogue with the Regulator to ensure an effective relationship.
	(m) Due diligence in hiring and oversight of External Auditor	Compliant	The primary responsibility for making recommendations on the appointment of the External Auditor rests with the Audit Committee. A formal policy approved by the Board on engagement of External Auditor to perform non-audit services is in place.
3.1 (ii)	Appointment and segregation of the roles of the Chairman and CEO	Compliant	The Board elects the Chairman and appoints the CEO. While the Chairman provides leadership to the direction, oversight, and control process exercised by the Board, the CEO is responsible for management of the Bank.
3.1 (iii)	Board meetings	Compliant	The Board held 14 Board meetings during the year. The Directors actively participated in the Board's decision-making process as evident from the Board minutes. Seeking approval of the Board by circulation was done only in exceptional circumstances due to urgency.
3.1 (iv)	The Board to ensure that arrangements are in place for Directors to include items and proposals in the agenda of Board meetings	Compliant	Whenever the Directors suggest topics for consideration at the Board meetings, they are included in the agenda under "open discussion" which is an integral part of every Board meeting and other supporting data, reports, documents etc. relevant for the subject matter are circulated among the Directors for information.
3.1 (v)	Notice of Board meetings – At least seven days notice of regular meetings and reasonable notice of other meetings to be given	Compliant	Dates for the regular monthly Board meetings are agreed by the Directors at the start of each year and any changes to dates of scheduled meetings are decided well in advance. The Board Circulars and other documents pertaining to meetings are made available well in advance to enable the Directors to participate in deliberations.
3.1 (vi)	Attendance at Board meetings	Compliant	All Directors attended more than two-thirds of Board meetings and no Director was absent for three or more consecutive meetings. Attendance details are given on page 96.
3.1 (vii)	Duties and qualifications of the Company Secretary	Compliant	The Company Secretary possesses the qualifications specified in Section 43 of the Banking Act. The Company Secretary while performing the secretariat services to the Board and shareholders' meetings, is responsible to the Board in ensuring that Board procedures and applicable rules and regulations are followed. All new Directors are provided with the necessary documentation on Directors' responsibilities and specific banking-related directions/policies that are required to perform their function effectively.
3.1 (viii)	The Directors' access to the Company Secretary	Compliant	All Directors have access to the advice and services of the Company Secretary directly.
3.1 (ix)	The Company Secretary's duty to maintain minutes of Board meetings and ensure the Directors' access to them	Compliant	The Company Secretary compiles the minutes of the Board meetings which are subject to approval of the Board and signed by the Chairman and the Secretary. Copies of minutes are provided and Directors have access to the original minute at all reasonable times.

Rule	Governance principle	Compliance	Remarks
3.1 (x)	The form and contents of the minutes of Board meetings	Compliant	The Board minutes are drawn with reference to Board Circulars with sufficient details to indicate the decisions made by the Board of Directors. The information used in making such decisions, the reasons and rationale of making them and each Director's contribution, if considered material, is included in the minutes.
3.1 (xi)	Independent professional advice on request for Directors to perform their duties	Compliant	The Board has put in place a procedure where the Directors can obtain independent professional advice, at the Bank's expense, to perform their duties.
3.1 (xii)	The Directors' avoidance of conflicts of interest	Compliant	The Companies Act No. 07 of 2007 requires Directors who are directly or indirectly interested in contracts or a proposed contract with the Bank to declare the nature of such interest. The Directors have declared their interests in contracts involving the Bank and have not participated in the decision-making.
3.1 (xiii)	Schedule of matters reserved for the decisions of the Board	Compliant	Schedule of matters reserved for the Board have been decided on.
3.1 (xiv)	Reporting insolvency to the Director of Bank Supervision	Compliant	Solvency is a matter constantly monitored by the Treasury Department, Integrated Risk Management Committee and the Board of Directors. During the year under review, the Bank remained solvent and no event has or is likely to occur that would make the Bank not able to meet its obligations.
3.1 (xv)	Adequacy of capital	Compliant	The Bank is capitalised well above the minimum levels required by the Monetary Board in terms of the capital adequacy and minimum required capital.
3.1 (xvi)	Corporate Governance Report	Compliant	The annual Corporate Governance Report forms an integral part of the Directors Report of the Bank's Annual Report.
3.1 (xvii)	Self-assessment of the Board of Directors	Compliant	The Board has a structured scheme of self-assessment which is carried out annually. The performance of the respective committees is also evaluated by the other members who are not members of the respective committees in order to ensure that they function effectively. The findings are discussed at the Board meetings and action is taken on areas identified for improvement. The performance assessment criteria of the CEO is given in 3.5 (xi).
3.2 Composition of the Board			
3.2 (i)	Number of Directors	Compliant	The Board of Directors comprised ten Directors at the end of the year under review.
3.2 (ii)	Period of service of a Director	Compliant	No Director has held the position of a Director of the Bank for more than nine years.
3.2 (iii)	Number of Executive Directors	Compliant	The CEO is the only Executive Director on the Board.
3.2 (iv)	Number of Independent Directors	Compliant	There were seven Independent Directors at the end of the year under review. During the year, the Board adopted a format of a declaration to be obtained annually from Non-Executive Directors so that each Director shall independently confirm their status against specific criteria applicable to the ascertainment of independence. As such, all Non-Executive Directors have submitted their declaration in compliance with the Board decision.

Rule	Governance principle	Compliance	Remarks
3.2 (v)	Alternate Directors to represent Independent Directors	Compliant	Persons who are appointed as Alternate Directors to existing Independent Directors of the Board are subject to the same criteria applicable to such Directors. During the year, Independent Directors did not appoint any Alternates.
3.2 (vi)	The skills, experience, and track records of Non-Executive Directors	Compliant	Non-Executive Directors who held office had professional backgrounds, strong track records, and high level managerial experience in banking, business, industry, law, finance, or auditing.
3.2 (vii)	Number of Non-Executive Directors required to form a quorum of Board meetings	Compliant	The Bank has been compliant with this rule at all times as monitored by the Company Secretary.
3.2 (viii)	Disclosure of details of Directors	Compliant	The names and the composition of the Directors by category are disclosed in the Annual Report of the Board of Directors.
3.2 (ix)	Appointments of new Directors	Compliant	Appointments of new Directors are formally evaluated by the Nomination and Governance Committee and recommended to the Board of Directors for approval.
3.2 (x)	Appointment of a Director to fill a casual vacancy	Compliant	The Articles of Association of the Bank provide that the Directors appointed by the Board of Directors hold office until the following AGM at which they have to be elected by the shareholders.
3.2 (xi)	Resignation or removal of a Director	Compliant	The details of cessation of a Director from office during the year under review is given in the Directors' Report. None of the Directors resigned or were removed during the year under review.
3.2 (xii)	Appointment of a Director or an employee to another bank	Compliant	No Director or employee of the Bank is a Director of another bank.
3.3 Fitness and propriety of Directors			
3.3 (i)	Maximum age of Directors	Compliant	All Directors who reached the age of 70 have relinquished office.
3.3 (ii)	Holding of Director's position in more than 20 companies in all	Compliant	All Directors comply with this requirement.
3.4 Management functions delegated by the Board			
3.4 (i)	Delegation arrangements	Compliant	The Board of Directors has delegated authority to the Management subject to specific criteria, limitations, safeguards and monitoring mechanisms.
3.4 (ii)	Extent of delegation	Compliant	The delegation of authority made by the Board is designed to facilitate efficient management of the affairs of the Bank and to aid the oversight role exercised by the Board. It is not of an extent to hinder the ability of the Board to discharge its functions. The Board retains the authority to expand, curtail, limit, or revoke such delegated authority.
3.4 (iii)	Review of delegation process	Compliant	The delegation process is subject to periodic review by the Board in order to ensure that necessary amendments are approved to meet the requirements of the Bank. Material decisions made under delegated authority are reported to the Board for information.

Rule	Governance principle	Compliance	Remarks
3.5 The Chairman and Chief Executive Officer			
3.5 (i)	Separation of the roles of the Chairman and CEO	Compliant	The Chairman and the CEO are two separate individuals.
3.5 (ii)	The Chairman to be a Non-Executive Director	Compliant	The Chairman is a Non-Executive Director. The Board appointed an Independent Director as the Senior Director as disclosed in the Annual Report. The Board has approved Terms of Reference for the Senior Director.
3.5 (iii)	Disclosure of relationship between the Chairman, CEO, and other Directors	Compliant	No relationships exist between the Chairman, the CEO, and the other Directors according to the declarations made by them except being Directors of subsidiaries, and the Chairman and one other Director being on the Board of two companies outside the Group.
3.5 (iv)	Role of the Chairman	Compliant	The Chairman provides leadership to the Board and ensures that the Board discharges its responsibilities effectively. The Chairman encourages members to actively participate and to raise their independent judgement on all key and appropriate issues in a timely manner.
3.5 (v)	Agenda of Board meetings	Compliant	The agenda of each Board meeting is drawn by the Company Secretary under the direction of CEO and Chairman, and any matters relevant to the policies and operations of the Bank proposed by other Directors are included in the agenda upon approval by the Chairman.
3.5 (vi)	Providing information to the Directors	Compliant	The Chairman ensures that all Directors are properly briefed on issues which arise at the Board meetings and ensures that they receive adequate information in a timely manner.
3.5 (vii)	The Board to act in the best interest of the Bank	Compliant	The Chairman encourages exercise of independent judgement by the Directors on matters under consideration by the Board in order that the best interests of the Bank can be assured.
3.5 (viii)	Effective contribution of Non-Executive Directors	Compliant	The Chairman facilitates contributions by the Non-Executive Directors in making decisions.
3.5 (ix)	The Chairman not to engage in executive functions	Compliant	The Chairman is Non-Executive and does not supervise any management personnel of the Bank directly.
3.5 (x)	Communication with shareholders	Compliant	The Chairman has assigned the CEO to maintain a dialogue with institutional investors and to bring any matters of concern to the notice of the Board. During the year, CEO participated in an international forum which attracted a large number of participants including institutional and high net worth investors and fund managers. He also had one-on-one meetings with potential investors and briefed the Board on the discussions held as appropriate. The Communications Policy approved by the Board includes a provision for communication with shareholders.
3.5 (xi)	CEO to be in charge of the management of operations and business	Compliant	The CEO is the Head of the Management team and is in charge of day-to-day management of the Bank's operations and business. At the beginning of each year, the Board discusses the business plan with the CEO and Senior Management, and agrees on the medium and short-term financial and non-financial targets to be achieved and action plans to be implemented by the Bank. Progress is monitored on an ongoing basis and the assessment of the performance of the Bank is carried out by the Board at the end of each year based on the initiatives laid down in the business plan.

Rule	Governance principle	Compliance	Remarks
3.6 Board appointed committees			
3.6 (i)	Four Board appointed committees	Compliant	The Board has appointed the four committees required by the direction. The reports on their duties, performance and roles are published in the Annual Report.
3.6 (ii)	Board Audit Committee		Please refer page 114.
	(a) Chairman of the Committee	Compliant	During the year under review, the Audit Committee was chaired by an Independent Non-Executive Director who is a qualified Chartered Accountant.
	(b) Composition of the members	Compliant	All members of the Committee are Non-Executive Directors.
	(c) External Auditor	Compliant	The Audit Committee assists the Board in implementing a transparent process in the engagement and remuneration of the External Auditor and assists in the general oversight of financial reporting, internal controls and compliance with laws, regulations, and Codes of Conduct. The Committee ensures that the engagement of the audit partner does not exceed five years.
	(d) Independence and effectiveness of the audit process	Compliant	The Committee reviewed the statement issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007. The Committee discussed with the External Auditors, the nature and scope of the audit, and the effectiveness of the audit process in respect of the financial year 2018.
	(e) Non-audit services	Compliant	A formal policy approved by the Board on engagement of the External Auditor to perform non-audit services is in place.
	(f) Nature and scope of external audit	Compliant	The Committee met with the External Auditor to discuss and finalise the scope of the audit to ensure that it is in compliance with guidelines issued by the Central Bank of Sri Lanka.
	(g) Review of financial information of Bank	Compliant	The Committee reviewed all quarterly unaudited interim Financial Statements and the Financial Statements for the year ended 31 December 2018.
	(h) Meetings with External Auditor	Compliant	The Committee met with the External Auditor on four occasions and at three of those meetings without the presence of the Management.
	(i) Review of Management Letter	Compliant	The Committee considered the Management Letter issued by the External Auditor for the year ended 31 December 2017 and the Management responses thereto.
	(j) Internal audit function	Compliant	The Committee reviews the adequacy of the internal audit function to ensure that it is in conformity with the Audit Committee Charter. The annual audit plan is approved by the Committee. The plan covers the scope and resource requirement. The annual performance appraisal of the Head of Internal Audit and the Senior Staff members are reviewed by the Committee. The internal audit function is independent of the activities it audits and the findings are reported directly to the Audit Committee.
	(k) Internal Audit findings	Compliant	The Committee reviewed the Internal Audit Reports and considered the findings, recommendations and corrective action.

Rule	Governance principle	Compliance	Remarks
	(l) Attendance of non-audit committee members	Compliant	Vice President – Internal Audit attends all Committee meetings. CEO, Deputy CEO, CFO, other Heads of units, and the External Auditors attend meetings on invitation. During the year, the Committee met with the External Auditor on three occasions without the presence of the Executive Director.
	(m) Terms of Reference	Compliant	The Committee is guided by the Audit Committee Charter.
	(n) Meetings	Compliant	During the financial year ended 31 December 2018, 12 meetings were held. Attendance of Committee members is given in the table on page 96.
	(o) Audit Committee activities	Compliant	Please refer Committee Report on page 114.
	(p) Secretary	Compliant	Vice President – Internal Audit serves as the Secretary of the Committee.
	(q) Process of raising issues in confidence	Compliant	The Board has adopted a Whistleblowing Policy to encourage employees to communicate legitimate concerns on any illegal or unethical practices. Arrangements are in place to ensure that all employees are duly informed of the effective use of this process.
3.6 (iii)	Board Human Resources and Remuneration Committee		Please refer page 117.
	(a) Remuneration Policy	Compliant	A formal Remuneration Policy approved by the Board is in place.
	(b) Goals and targets for KMPs	Compliant	The business plan which is approved by the Board encompasses the annual goals and targets of the CEO and other KMPs.
	(c) Review of performance of KMPs	Compliant	The Committee annually reviews the performance against the set targets of the CEO and other KMPs, and the remuneration levels of the CEO and other KMPs, while ensuring appropriate compensation levels are maintained in order to retain and motivate staff.
	(d) CEO's presence	Compliant	The CEO attends meetings and participates in deliberations except when matters relating to him are discussed. He also functions as the Secretary to the Committee.
3.6 (iv)	Board Nomination and Governance Committee		Please refer page 118.
	(a) Appointment of new Directors and KMPs	Compliant	During the year, the Committee considered and recommended to the Board, the appointment of two new Directors and candidates to fill key management positions. The Committee has documented the procedure to select/appoint Directors and other KMPs.
	(b) Re-election of Directors	Compliant	During the year, the Committee considered and recommended to the Board, the re-election of the Directors retiring under Articles 44 and 46 (ii) while ensuring that they are fit and proper persons to hold such office.
	(c) Criteria relating to appointment of KMPs	Compliant	The Committee evaluates the qualifications, experience and key attributes required for eligibility for appointment of KMPs. The Committee has reviewed and incorporated necessary changes to job descriptions of the respective KMPs.

Rule	Governance principle	Compliance	Remarks
	(d) Fit and proper test	Compliant	The fitness and propriety of KMPs are monitored by the Committee.
	(e) Succession planning	Compliant	The Committee evaluates the need for additional/new expertise to the Board and succession for retiring KMPs.
	(f) Composition	Compliant	The Committee consists of three Non-Executive Directors and is chaired by an Independent Director.
3.6 (v)	Board Integrated Risk Management Committee (BIRMC)		Please refer page 119.
	(a) Composition	Compliant	Please refer page 119.
	(b) Assessment of risk	Compliant	The Committee has put in place a Board approved risk framework. The risk exposures of the Bank are assessed on a monthly basis through Key Risk Indicators. The risk assessment of subsidiaries, joint venture, and the associate is reviewed quarterly.
	(c) Review of Adequacy of Management Committees	Compliant	The Committee assesses the effectiveness of all Management Committees.
	(d) Controlling risks within prudent limits	Compliant	The Committee assesses possible risks, reviews, and takes appropriate action to mitigate such risks.
	(e) Frequency of meetings	Compliant	The Committee met on a quarterly basis.
	(f) Corrective action on any management failure to identify risks	Compliant	Action is taken by the Committee with regard to any officer responsible for failure to identify specific risks, and appropriate corrective action is taken to remedy such situations.
	(g) Submission of Risk Assessment Reports to the Board	Compliant	The Board is kept informed of Committee proceedings by submitting the BIRMC minutes to the Board. The required approvals are obtained through specific submissions to the Board.
	(h) Compliance function	Compliant	The compliance function is headed by a dedicated officer identified as a KMP in terms of the Corporate Governance Direction. The Compliance Officer reports to the BIRMC. The Committee oversees the function and reviews the quarterly reports on compliance.
3.7 Related party transactions			
3.7 (i) to (iii)	Avoidance of conflicts of interest and favourable treatment in transactions with related parties	Compliant	The Bank has adhered to the law as specified in the Banking Act and the Directions issued thereunder with regard to transactions with related parties. The Board ensures that no related party benefits from any favourable treatment except as indicated in 3.7 (vi). A Related Party Transactions Review Committee has been established by the Board. The Committee Report is on page 122. The Board has also adopted a Policy on Related Party Transactions. The Bank has put in place a mechanism to obtain, on a quarterly basis, a confirmation from all Key Management Personnel on a structured format to assist in the process of collating related party transactions.
3.7 (iv)	Accommodation granted to Directors or their close relations	Compliant	The Bank complies with the law as specified in the Banking Act and the Directions issued thereunder in granting accommodation to the Directors and/or their close relations.

Rule	Governance principle	Compliance	Remarks
3.7 (v)	Accommodation granted to Directors prior to appointment	Compliant	The provisions of the Banking Act will be followed if such situations arise and public will be informed if not compliant by the specified date as he/she will cease to hold office. This situation did not arise during the year.
3.7 (vi)	Avoidance of favourable treatment in granting accommodation to employees, close relations of employees and/or entities in which any employee or close relation of such employee hold substantial interest	Compliant	The accommodation granted to employees, close relations of employees and/or entities in which any employee or close relation of such employee holds substantial interest are subject to normal commercial terms applicable to such transactions and secured by security approved by the Monetary Board except in the case of accommodation under approved schemes, uniformly applicable to all or specific categories of employees.
3.7 (vii)	Not to remit part of accommodation or interest without prior approval of Monetary Board	Compliant	No such situation has arisen.

Disclosure on Corporate Governance made in Terms of Section 3 (8) of the Banking Act Direction No. 11 of 2007 of the Central Bank of Sri Lanka

(i) The Board shall ensure that:

	The annual audited Financial Statements and quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers in an abridged form in Sinhala, Tamil, and English.	Complied with.

(ii) The Board shall ensure that the following minimum disclosures are made in the Annual Report:

(a)	A statement to the effect that the annual audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer the Statement of Directors' Responsibility on page 129.
(b)	A report by the Board on the Bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. Please refer to the Directors' Statement of Internal Control on page 123.
(c)	The External Auditors' Certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after 31 December 2008.	Complied with. Please refer Assurance Report of the External Auditor on page 126.

(d)	Details of Directors, including names, fitness and propriety, transactions with the Bank and the total fees/remuneration paid by the Bank.	Complied with. Please refer to pages 14, 15 and 110 and Note 56.7 to the Financial Statements.
(e)	Total net accommodation as defined in 3 (7) (iii) granted to each category of related parties shall also be disclosed as a percentage of the Bank's regulatory capital	Complied with.

Category of related party	31 December 2018 LKR 000	%
Key Management Personnel and Close Family Members	**49,537**	**0.10**
Total net accommodation	**49,537**	**0.10**
Regulatory capital – solo basis	**47,203,364**	

The total net accommodation was 0.10% of the Bank's regulatory capital on solo basis. Maximum limit determined by Directors is 25% of the Bank's regulatory capital on solo basis.

(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied with. The aggregate value of compensation and transactions with the Bank by Key Management Personnel as defined by LKAS 24 for financial reporting purposes are given in Note 56.7 to the Financial Statements. Further, in addition to the above, compensation, total deposits and investments made and accommodation obtained as at 31 December 2018 by the other Key Management Personnel (officers performing executive functions referred to in Banking Act Determination No. 3 of 2010) amounted to LKR 110.28 Mn, LKR 180.21 Mn and LKR 24.07 Mn respectively.
(g)	All findings of the "Factual Findings Report" of the External Auditor to be incorporated in this Report.	Complied with.
(h)	A Report setting out details of the compliance with prudential requirements, regulations, laws and internal controls, and measures taken to rectify any material non-compliance.	Complied with. See Annual Report of the Board of Directors on the Affairs of the Bank.
(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	The Monetary Board has not directed any disclosure to be made.

Independent assurance

The External Auditors have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 (SLRSPS 4750) issued by The Institute of Chartered Accountants of Sri Lanka, to meet the compliance requirement of the Corporate Governance Direction. Their findings presented in their Report addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board.

Annual Report of the Board of Directors on the Affairs of the Bank

Constitution

DFCC Bank was incorporated in 1955 under the DFCC Bank Act No. 35 of 1955 as a limited liability public company and the ordinary shares of the Bank were listed on the Colombo Stock Exchange.

Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and with effect from 6 January 2015 the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed on the Colombo Stock Exchange with the name “DFCC Bank PLC”.

The shareholders at the Extraordinary General Meeting held on 28 August 2015 approved the amalgamation of DFCC Vardhana Bank PLC (DVB) with DFCC Bank PLC (Bank). The Registrar General of Companies on 1 October 2015 issued the Certificate of Amalgamation in terms of Section 244 (1) (a) of the Companies Act No. 07 of 2007 that DVB has been amalgamated with DFCC Bank PLC in accordance with the provisions of Part VIII of the Companies Act, with DFCC Bank PLC surviving as the amalgamated entity.

DFCC Bank PLC also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a Licensed Commercial Bank with effect from 1 October 2015.

Going concern

The Directors are satisfied that the Bank has adequate resources to continue its operations in the future and as such, the Financial Statements are prepared on the basis of a going concern. The Auditors have declared the Bank solvent even after the payment of dividend.

Financial statements

The Financial Statements of the Bank and the Group are given on pages 136 to 242 of the Annual Report.

The Financial Statements of the Bank and the Group have been prepared in accordance with Sri Lanka Accounting Standards prefixed SLFRS and LKAS, the Banking Act No. 30 of 1988 and amendments thereto, the Companies Act No. 07 of 2007 and other applicable statutory and regulatory requirements.

Review of business of the year

The Chairman’s Statement, Chief Executive’s Report and the Management Discussion and Analysis give details of the operations of the Bank and the Group, and the key strategies that were adopted during the year under review.

Profit and appropriations

Year ended 31 December 2018	LKR 000
Profit for the period	2,768,179
Appropriations	
Transfer to:	
Reserve Fund (statutory requirement)	134,000
First and final dividend approved for financial year ended 31 December 2018	927,842
Unappropriated profit for the period	1,706,337

Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements of the Bank and the Group are stated on pages 145 to 242 of the Annual Report.

There were no changes to the accounting policies of the Group in the year under review, other than for changes arising out of transition to SLFRS 15 and SLFRS 9.

Auditors' report

The Auditors' Report on the Financial Statements, which is unqualified, is given on page 131.

Reappointment of Auditors

The present Auditors, Messrs KPMG have expressed their willingness to continue as Auditors of the Bank for the next financial year ending 31 December 2019. The Audit Committee has reviewed the effectiveness and the relationship with the Bank including the fees paid to the Auditors and has concluded that they are suitable to continue in office. The Directors are satisfied that based on the written representation made by the Auditors, they have no relationship or interest with the Bank or with any of its subsidiaries which would impair the Auditors independence. A resolution pertaining to their reappointment and authorising the Directors to determine their remuneration will be proposed at the Annual General Meeting for adoption.

The Board of Directors

The Board of Directors of the Bank presently consist of 10 Directors with wide knowledge and experience in the fields of banking and finance, trade, law, commerce, manufacturing, or services. Profiles of the Directors are given on pages 14 and 15.

The Directors of the Bank categorised in accordance with criteria specified in the Direction No. 11 of 2007 issued by the Central Bank of Sri Lanka are as follows:

Non-Executive Directors

C R Jansz – Chairman
Ms V J Senaratne

Independent Non-Executive Directors

K P Cooray
T Dharmarajah
J Durairatnam
Ms L K A H Fernando
P M B Fernando
N K G K Nemmawatta
Ms S R Thambiayah

Executive Director

L H A L Silva – Chief Executive Officer

C R Jansz and Ms V J Senaratne do not meet the criteria set out in the Direction to be designated as Independent Directors by virtue of the fact that Mr Jansz and Ms Senaratne are common Directors of two companies outside the Group.

Senior Director

P M B Fernando has been designated as the Senior Director in terms of Central Bank of Sri Lanka Direction on Corporate Governance.

Appointment, resignation/cessation and re-election of Directors

N K G K Nemmawatta was appointed on 1 February 2018 as a Non-Independent Non-Executive Director to succeed K D N R Asoka. He ceased to be a Director of the Bank with effect from 31 October 2018 in terms of Article 36 (ii) of the Articles of Association of DFCC Bank PLC.

Subsequently N K G K Nemmawatta was reappointed to the Board as an Independent Non-Executive Director with effect from 20 December 2018. He will retire in terms of Article 46 (ii) of the Articles of Association and is offering himself for re-election at the Annual General Meeting.

J Durairatnam was appointed a Director with effect from 30 August 2018. He will retire in terms of Article 46 (ii) of the Articles of Association and is offering himself for re-election at the Annual General Meeting.

The Nomination and Governance Committee has recommended their re-election and the Board having concluded that they are fit and proper persons to be Directors in terms of the provision of the Banking Act unanimously endorsed the recommendation of the Nomination and Governance Committee.

There were no resignations during the year.

Retirement by rotation and re-election of Directors

The Directors retiring by rotation in terms of Article 44 of the Articles of Association are T Dharmarajah and Ms S R Thambiayah, who offer themselves for re-election under the said Article with the unanimous support of the Directors.

Directors' remuneration

The Directors' remuneration in respect of the Bank and the Group for the financial year ended 31 December 2018 is given below:

	Year ended 31 December 2018	Year ended 31 December 2017
Bank	**55,271**	80,877
Group	**79,959**	103,818

Directors' meetings

The Bank held 14 Board meetings during the year. The attendance of Directors is shown in the Table on page 96 of the Annual Report.

Directors' interests in shares

	Number of shares as at 31 December 2018	Number of shares as at 31 December 2017
K P Cooray	**Nil**	Nil
T Dharmarajah	**500**	500
J Durairatnam[1]	**Nil**	–
Ms L K A H Fernando	**Nil**	Nil
P M B Fernando	**1,000**	1,000
C R Jansz	**1,000**	1,000
N K G K Nemmawatta[1]	**Nil**	–
Ms V J Senaratne	**1,296**	1,296
L H A L Silva	**3,476**	3,476
Ms S R Thambiayah	**Nil**	Nil

[1] *Not a Director as at 31 December 2017*

Directors' interests in debentures

	31 December 2018 LKR 000	31 December 2017 LKR 000
L H A L Silva	**2,000**	2,000

No Director directly or indirectly holds options of the Bank.

Directors' interests register

An interest register is maintained by the Bank as required by the Companies Act No. 07 of 2007. Directors have made the general disclosure as provided for in Section 192 of the Companies Act No. 07 of 2007. The Directors have declared all material interests in contracts involving the Bank and have not participated in the decision-making related to such transactions. All related entries were made in the interest register during the year under review.

Directors' interests in transactions with the Bank

The Directors' interests in transactions with entities/persons (other than subsidiaries, the joint venture, and associate) listed under each Director for the year ended 31 December 2018 is as follows:

	LKR 000
K P Cooray Aggregate amount of accommodation	500
Hotel Developers PLC Aggregate amount of accommodation	500,000
Associated Newspapers of Ceylon Limited Aggregate amount of payments for services	11,985
T Dharmarajah DHS Medical Group (Pvt) Ltd. Aggregate amount of accommodation	4,050
J Durairatnam Aggregate amount of accommodation	500
Asian Hotels & Properties PLC Aggregate amount of payment for services	4,410
Ms L K A H Fernando Aggregate amount of accommodation	500
TVS Lanka (Pvt) Ltd. United Motors Lanka PLC Aggregate amount of accommodation	1,160,000
United Motors Lanka PLC Aggregate amount of payment for services	417
P M B Fernando Aggregate amount of accommodation	500
N K G K Nemmawatta Aggregate amount of accommodation	500
C R Jansz Distilleries Company of Sri Lanka PLC Melstacorp PLC Periceyl (Pvt) Limited Splendor Media (Pvt) Ltd. United Dairies Lanka (Pvt) Ltd. Aggregate amount of accommodation (Includes LKR 2 Bn which was cancelled prior to 31 December 2018)	7,322,500
Lanka Bell Limited Aggregate amount of payments for services	5,461
Ms V J Senaratne Aggregate amount of accommodation	500
Distilleries Company of Sri Lanka PLC Melstacorp PLC Aggregate amount of accommodation (Includes LKR 1.5 Bn which was cancelled prior to 31 December 2018)	4,800,000

	LKR 000
L H A L Silva	
Aggregate amount of accommodation	700
Lanka Ventures PLC LVL Energy Fund PLC Aggregate amount of accommodation	705,000
Lanka Financial Services Bureau Limited Aggregate amount of payments for services	3,679

During the year, L H A L Silva and K P Cooray are or have been Chairman/Director of one or more of the subsidiary, joint venture, or associate companies. Details of transactions with subsidiary, joint venture and associate companies are disclosed in Notes 56.3-56.5 in the Notes to the Financial Statements.

Corporate donations

During the year, the Bank made donations amounting to LKR 60,000.

Board Committees

The following are the present members of the permanent committees of the Board. Changes to the composition during the year are set out in the respective committee reports in the Annual Report:

Audit Committee

P M B Fernando – Chairman
T Dharmarajah
Ms L K A H Fernando

Credit Approval Committee

C R Jansz – Chairman
K P Cooray
J Durairatnam
P M B Fernando*

**Non-voting member with effect from 21 December 2018*

Credit Restructure Committee

C R Jansz – Chairman
T Dharmarajah
Ms S R Thambiayah

Human Resources and Remuneration Committee

C R Jansz – Chairman
K P Cooray
Ms S R Thambiayah

Nomination and Governance Committee

P M B Fernando – Chairman
K P Cooray
C R Jansz

Integrated Risk Management Committee

T Dharmarajah – Chairman
Ms L K A H Fernando
Ms V J Senaratne
L H A L Silva

Chief Risk Officer of the Bank is also a member of the Committee.

Related Party Transactions Review Committee

T Dharmarajah – Chairman
K P Cooray
P M B Fernando
C R Jansz
L H A L Silva

In addition, from time to time the Board appoints committees to deal with specific matters. The Board also invites external advisors and Key Management Personnel to serve on some of the committees as and when necessary.

Further details relating to the committees are given in the section on Corporate Governance and the committee reports.

Dividend

The Directors have approved the payment of a first and final dividend of LKR 3.50 per share, (final dividend paid in the previous period, LKR 5.00 per share). The total dividend for the year will amount to approximately LKR 928 Mn (LKR 1,325 Mn in the previous period), which amounts to 35% of the Bank's distributable profit.

The Directors unanimously declare that, DFCC Bank PLC will satisfy the solvency test stipulated in Section 57 of the Companies Act No. 07 of 2007 immediately after the dividend payment is made and a certificate of solvency from its Auditor is obtained.

Property, plant and equipment, and leasehold property

The total expenditure of acquisition on property, plant and equipment during the year amounted to LKR 1,093 Mn, of which intangible assets amounted to LKR 422 Mn. Details of these are given in Notes 38 and 39 to the Financial Statements.

Reserves

Total reserves and retained profit amounted to LKR 39,130 Mn.

Market value of freehold properties

The information on market value of freehold properties are given in Note 38.1.3 to the Financial Statements.

Stated capital and subordinated debentures

The stated capital as at 31 December 2018 was LKR 4,716 Mn. The number of shares in issue as at 31 December 2018 was 265,097,688. Further information is given on pages 210 and 211.

The Board of Directors, on 22 January 2019 decided to raise new capital by way of a Rights Issue of two shares for every five shares held at a consideration of LKR 72.00 per share. The Rights Issue is subject to the approval by the Colombo Stock Exchange and the shareholders at an Extraordinary General Meeting and intends to raise approximately LKR 7.6 Bn of new equity capital.

Share information

Information relating to earnings, net asset and market value per share are given on pages 45 and 48 of the Annual Report and also contain information pertaining to the share trading during the period.

Shareholders

As at 31 December 2018, there were 8,880 registered shareholders and the distribution is indicated on page 46.

The 20 largest shareholders as at 31 December 2018 are listed on page 47.

Employment and remuneration policies

The policy of the Bank is to develop and maintain a dedicated and highly motivated group of employees who are committed to creating sustainable value through effective risk management and high quality service while supporting public and private sector in its development efforts within the ambit of the Articles of Association of the Bank. DFCC Bank PLC continuously invests in training and development of its staff to meet these objectives. The Bank is an equal opportunity employer. Remuneration of employees consists of fixed and variable payments. Annual increments and pay awards are based on the performance of the Bank and the individual. It is the Bank's policy to fix remuneration at a level which will attract, motivate, and retain high quality employees.

Statutory payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to the employees have been made on time.

Review of related party transactions

The Related Party Transactions Review Committee is responsible for ensuring compliance with the code specified in Section 9 of the CSE Listing Rules. The Committee reviewed the related party transactions carried out during the year and noted that the transactions were in compliance with the said code.

Compliance with laws, regulations, and prudential requirements

DFCC Bank PLC has not engaged in any activities contravening the laws and regulations and has complied with prudential requirements. The Directors obtain quarterly, a confirmation report from the Management with regard to compliance with laws, regulations, and prudential requirements.

Events occurring after the reporting period

Subsequent to the date of the Statement of Financial Position, no circumstances have arisen which would require adjustments to the accounts. Significant events occurring after the reporting period which in the opinion of Directors require disclosure are described in Note 59 to the Financial Statements.

Corporate governance

The Directors place great emphasis on following internationally accepted good corporate governance practices, and principles. Systems, and procedures are in place in order to satisfy good governance requirements.

The Directors have obtained External Auditors' assurance on effectiveness of the internal control mechanism and compliance with the Direction 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance.

Details of governance practices and the required disclosures are given on pages 94 to 107.

Rule 3 (8) of the Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka prescribe disclosures in the Annual Report. These disclosures have been made in this Annual Report as shown in the following Table:

The Table below provides cross references to facilitate easy reference.

Reference to rule	Requirement	Reference to annual report
3 (8) (i)	Financial statements on prescribed format	Financial Statements on pages 136 to 242.
3 (8) (ii) (a)	Affirmative assurance of compliance with accounting standards and requirements	Directors' Responsibility Statement on page 129.
3 (8) (ii) (b)	Affirmative assurance of the integrity of financial reporting system	Directors' Statement of Internal Control on page 123.
3 (8) (ii) (c)	Assurance report issued by the External Auditor	Independent Assurance Report on page 126.
3 (8) (ii) (d)	Information on Directors	Pages 14 and 15.
3 (8) (ii) (d)	Remuneration of Directors	Annual Report of the Directors on page 108.
3 (8) (ii) (e)	Net accommodation granted to each category of related party	Corporate Governance Report. Table on page 107.
3 (8) (ii) (f)	Compensation and other transactions with Key Management Personnel	Corporate Governance Report on page 107.
3 (8) (ii) (h)	Compliance with prudential requirements and regulations	This report.

Acknowledgement of the content of the report

As required by Section 161 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this report.

For and on behalf of the Board of Directors,

C R Jansz
Chairman

L H A L Silva
Director and Chief Executive Officer

Ms A Withana
Company Secretary

18 February 2019

Report of the Audit Committee

Composition

The Board appointed Audit Committee comprises three Independent Non-Executive Directors. The Committee is chaired by P M B Fernando who is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and possesses considerable experience in the field of finance and auditing.

The members of the Board appointed Audit Committee are as follows:

P M B Fernando – Chairman
T Dharmarajah
Ms Hiroshini Fernando

Brief profiles of the members are given on pages 14 to 15.

Mandate and role

The Terms of Reference of the Committee, which is subject to review periodically by the Board of Directors, clearly defines the mandate and role of the Committee. The Terms of Reference of the Committee was last reviewed and approved by the Board in October 2018. The Committee is responsible to the Board of Directors and reports on its activities regularly. The Committee assists the Board of Directors in fulfilling its general oversight of financial reporting, internal controls, internal and external audits.

The Committee has discharged the responsibilities assigned by Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka. Where appropriate, more details are provided under separate headings in this Report.

Meetings

The Head of Group Internal Audit functioned as the Secretary to the Committee for the year ended 31 December 2018. During the year, 12 Audit Committee meetings were held and proceedings of the Audit Committee meetings were reported regularly to the Board.

Attendance by the Committee members at the meetings is given in the table on page 96 of this Annual Report.

The Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer attend meetings by invitation. Senior Management also attend the meetings on invitation in order to brief the Audit Committee on specific matters. The Committee held two meetings with the External Auditor; KPMG independently, without the presence of Executive Management, to discuss the progress and conclusion of the audit.

Principal activities conducted during 2018 review of financial reporting

The Committee reviewed the effectiveness of the Financial Reporting system in place, to ensure reliability of information provided to the stakeholders. The Committee reviewed that to the best of its knowledge and belief, the Financial Statements issued for external purposes by DFCC Bank PLC (the Bank), complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards, and complies with the statutory provisions of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and subsequent amendments thereto.

The Committee assisted the Board of Directors to discharge their responsibility for the preparation and presentation of true and fair Financial Statements in accordance with the books of accounts and Sri Lanka Accounting Standards. In carrying out the overseeing responsibilities, the Committee reviewed:

- The adequacy and effectiveness of the internal control system and procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of accounts.
- All critical accounting policies, practices, related changes thereto, alternative accounting treatments, major judgement areas, material audit adjustments, compliance with accounting standards, going concern assumptions, financial reporting controls and compliance with applicable laws and regulations that could impact the Bank's Financial Statements, its Annual Report and its Quarterly Financial Statements prepared for publication in conjunction with Management, External and Internal Auditors.

- All quarterly non-audited interim Financial Statements and Financial Statements for the year ended 31 December 2018, together with supporting information that included significant assumptions and judgements made in the preparation of Financial Statements.
- Internal Audit Reports, Management Letter issued by the External Auditor and the responsibility statements in relation to the Financial Statements issued by the Chief Financial Officer and Chief Executive Officer in making an overall assessment on the integrity of the Financial Reporting System.
- The operations, future prospects, and sustainability indicators of the Bank are discussed with the Management regularly to ensure that all relevant matters have been taken into account in the preparation of the Financial Statements and that the 2018 Financial Statements are reliable, and presents a true and fair view of the state of affairs of the Bank.

Review of internal control system

The Audit Committee assessed the effectiveness of internal control over financial reporting as at 31 December 2018 as it is required to comply with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks, issued by the Central Bank of Sri Lanka. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations. The Committee ensures that appropriate action is taken by the Management on the recommendations of the Internal Auditors to improve the effectiveness of the internal control system of the Bank. The Board of Directors performs its responsibilities on the basis of the internal control framework, which enables the Board to pursue its functions and take necessary measures. The Board's statement on effectiveness of the Bank's internal control mechanism is published on pages 123 to 125.

Overview of group internal audit function

The Audit Committee ensures that the Internal Audit function is independent of the activities it audits and that it is performed with impartiality proficiency and due professional care. The Audit Charter authorises and guides the Head of Group Internal Audit (HGIA) in carrying out independent audit functions of the Bank and its subsidiaries. The HGIA enjoys operational independence in conducting duties and has the authority to initiate, carry out and report on any action, which is considered necessary. For the performance of duties, the HGIA and audit staff shall have unrestricted, unlimited, direct and prompt access to all records of the Bank and subsidiaries, officials or personnel holding any contractual status of the Bank and subsidiaries, and to all the premises of the Bank and subsidiaries. The Committee had necessary interactions with the Head of Internal Audit throughout the year. The Audit Committee monitored and reviewed the scope, resources, extent, and effectiveness of the activities of the Bank's Internal Audit Department.

The Committee reviewed the progress of the risk-based audits carried out in accordance with the Internal Audit plan approved by the Committee for the year 2018. During the year, the Internal Audit Department has reviewed business lines, critical operational processes, risk and compliance functions, branches, and subsidiary operations. Further, the Department has conducted thematic audits focusing on particular audit objectives across the audited units/branches. The Potential Fraud Monitoring Unit under Internal Audit carry out testing and data analytics related to potential fraud risk areas on a continuous basis. The Internal Audit Department suggested simplified and efficient business processes where it was deemed necessary.

In 2018, the Internal Audit Department carried out 333 audits and reviews of branches, departments, Information System Audits, Thematic Audits, Process Audits, and special investigations of the Bank. The Committee reviewed the Internal Audit Reports of the Bank's subsidiaries as well. The Board Audit Committee advised the Corporate Management to take precautionary measures on significant audit findings and obtained required assurances through affirmative confirmations from business units on the remedial action with respect to the identified risks, to maintain the effectiveness of the internal control system.

The Group Audit function is governed by the Group Audit Charter which defines the Internal Audit's purpose, authority, independence, reporting, responsibility, and access in order to assist Group Audit to discharge its function independently. The Group Audit Charter and Audit Manual were revised and approved in October 2018 by the Board Audit Committee/Board.

Monitor the independence of external audit

The Committee reviewed and monitored the External Auditors' independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The Committee approved the policy in place on non-audit services provided by the External Auditors in October 2018.

The Committee ensured that the lead audit partner was rotated every five years in accordance with the Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka. The Committee discussed with the Auditors their audit plan, scope, and the methodology they propose to adopt in conducting the annual audit prior to its commencement. The Auditors were also provided with the opportunities to meet the Audit Committee separately, without the presence of Executive Management, to ensure that the Auditors had the independence to discuss and express their opinions on any matter. There was no limitation of scope and the Management has fully provided all information and explanations requested by the Auditors. The Committee also met the Auditors to review the Management Letter with the responses from the Management.

Reappointment of External Auditor

The Committee performed an evaluation of the Bank's External Auditor Messrs KPMG based on certain key areas and recommended to the Board of Directors that KPMG Chartered Accountants should be reappointed for the financial year ending 31 December 2019, subject to the approval of shareholders at the Annual General Meeting.

Review of the process of transition to SLFRS 9

The Committee received periodic updates from the external consultants and Management on the process of adoption of SLFRS 9 and the related financial implications on day one as at 1 January 2018 and during the year ended 31 December 2018.

The assumptions used to construct the models for the computation of Expected Credit Loss (ECL) and the estimates made by the Management were reviewed by the Committee.

Good Governance and Whistleblowing Policy

The Committee continuously emphasised on sustaining ethical conduct amongst staff members. In this regard, a Code of Ethics and Whistleblowing Policy was put in place and all members of staff were educated and encouraged to practice Whistleblowing if they suspect any wrong-doing.

The Whistleblowing Policy of the Bank and its subsidiaries was reviewed and recommended by the Audit Committee during the year 2018 in order to further strengthen the policy as a communication channel to raise any genuine concerns. All appropriate procedures and techniques are in place to conduct independent investigations into incidents reported through Whistleblowing or identified through other channels. The Whistleblowing Policy guarantees the maintenance of strict confidentiality of the identity of the Whistleblowers. The Policy is subject to annual review in order to further improve its effectiveness.

Evaluation of the Committee

The effectiveness of the Committee is self-evaluated annually by its members. An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board and the Committee has been found to be effective.

P M B Fernando

Chairman - Audit Committee

18 February 2019

Report of the Human Resources and Remuneration Committee

Composition

The Human Resources and Remuneration Committee appointed by the Board of Directors, presently consists of three Non-Executive Directors. C R Jansz is the Chairman of the Committee. K P Cooray and Ms S R Thambiayah are the other members.

The Chief Executive Officer attended meetings and participated in its deliberations except when his own evaluation and remuneration was under discussion. He also serves as the Secretary. The Group Vice President, Human Resources, assisted the Committee by providing relevant information. The Committee obtains input from external specialists as and when required.

Mandate

Terms of Reference of the Committee adopted by the Board encompasses the tasks specified in Section 3 (6) (iii) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance for Licensed Commercial Banks.

The Committee in determining the remuneration policy relating to Directors, Chief Executive Officer and Key Management Personnel of DFCC Bank, in terms of Directions, ensures appropriate compensation levels in order to attract, retain and motivate talented staff with the core capabilities matched to its strategy and also to ensure that the Bank consistently delivers value to all stakeholders and to make the Organisation more competitive. To achieve this, the Committee uses a mixture of fixed and variable pay to reward employees.

Procedure

The Committee assists the Board in exercising its oversight on matters related to human resource strategies and policies and makes recommendations to the Board. Apart from the general review of remuneration, in keeping with the policy of pay for performance, the Committee reviewed the performance of the Bank against the historical performance, key performance indicators agreed at the beginning of the year as well as against a peer group when determining and recommending to the Board; the annual salary increment pool and the performance-based variable pay pool for DFCC Bank. The Committee also appraised the performance of the Chief Executive Officer based on the pre-agreed targets and desired skills and reviewed his remuneration.

In addition, the Committee considers and recommends to the Board of Directors from time to time, the requirements of additional/new expertise/skills and also salary revisions. The Committee annually assesses the succession plan for key management positions and took appropriate steps to induct external skills to strengthen the Management of the Bank where it was deemed necessary.

Meetings

The Committee held seven meetings during the financial year to carry out its task. The attendance by members is given on page 96 of the Annual Report.

C R Jansz

Chairman – Human Resources and Remuneration Committee

18 February 2019

Report of the Nomination and Governance Committee

Composition

The Nomination and Governance Committee of the Board of Directors consists of three Non-Executive Directors. P M B Fernando, an independent Director is the Chairman with C R Jansz and K P Cooray serving as members.

The Chief Executive Officer attends the meeting by invitation, while the Secretary to the Board functions as the Secretary of the Committee.

Mandate

During the year under review, the Committee carried out the tasks as set out in the Terms of Reference approved by the Board. The Terms of Reference approved by the Board encompasses the tasks set out in Section 3 (6) (iv) of Direction No. 11 of 2007 of the Central Bank of Sri Lanka on Corporate Governance in Licensed Commercial Banks.

In terms of the mandate, the role of the Committee is to review governance policies and procedures, evaluate the performance of the Board and identify and evaluate persons with the required skills, knowledge, standing, fitness, and propriety to join the Board of the Bank and to evaluate the suitability of Directors who are seeking re-election. The Committee is also responsible for the task of implementing a procedure for the appointment of the CEO and Key Management Personnel.

Procedure

The Committee meets when required and acts within its mandate approved by the Board of Directors and makes recommendations to the Board for consideration.

Meetings

Nine meetings were held during the year. During the year, the Committee considered and recommended to the Board the appointment of two new Directors. The Committee identified persons to fill key management positions after reviewing many candidates from time to time to ascertain the best fit for the Bank in terms of qualifications, ability, and character, and reviewed succession planning and assessed the fitness and propriety of Directors and Key Management Personnel, in terms of the requirements of the Banking Act. During the year, 20 high performing officers identified for succession were given the opportunity to present themselves to the members of the Board in order to create an opportunity for Directors to be able to interact with these officers and identify their strengths and areas for their development. The Committee which was formed last year to improve the process for succession planning for KMP's comprising a member of the Audit Committee, CEO and Head of HR met and reviewed the progress.

During the year, the Committee adopted a format of a declaration to be obtained annually from Non-Executive Directors confirming their status of independence. In addition to the annual evaluation of the Board carried out by the individual members, this year too, an evaluation of the Board was carried out by the Nomination and Governance Committee members based on a separate check list approved by the Committee and the results were shared with the other members of the Board.

Individual Committee members do not participate in discussions in matters relating to them. The attendance by Directors at meetings is given on page 96 of the Annual Report. The Committee has recommended the re-election of the Directors offering themselves for re-election at the Annual General Meeting.

P M B Fernando
Chairman – Nomination and Governance Committee

18 February 2019

Report of the Board Integrated Risk Management Committee

Composition of Board Integrated Risk Management Committee (BIRMC)

During the financial year ended December 2018, there was no change in the composition of Board Integrated Risk Management Committee (BIRMC) of DFCC Bank except for the resignation of the Chief Risk Officer (CRO), P Gamage in August 2018. A Goonesekere was appointed as the new CRO from September 2018. BIRMC consists of three Non-Executive Directors and one Executive Director as at 31 December 2018. The Chief Risk Officer, who has the voting power, functions as the Secretary to the Committee. Heads of key functional areas such as Lending, Finance, Treasury, Operations, Information Technology, Internal Audit and Compliance attend the meetings on invitation. The membership of the BIRMC as at 31 December 2018 was as follows:

- T Dharmarajah – Chairman of the Committee/ Non-Executive Director
- L H A L Silva – Executive Director/Chief Executive Officer
- V J Senaratne – Non-Executive Director
- L K A H Fernando – Non-Executive Director
- A Goonesekere – Group Chief Risk Officer

Charter and the responsibilities of the BIRMC

The approved Charter for the BIRMC stipulates authority, structure, responsibilities and tasks of BIRMC. As per its Charter, the primary responsibilities of BIRMC are to review and ensure;

A. Integrity and adequacy of the risk management function of the Bank

B. Adequacy of the Bank's capital and its allocation

C. Risk exposures and risk profiles of DFCC Bank are within acceptable parameters and to make recommendations to the Board of Directors on any action required;

D. The adequacy and effectiveness of the Management Committees through a set of defined tools.

E. Availability of a comprehensive and updated set of risk policies and guidelines covering overall operations of the Group.

F. The compliance of the Group's operations with relevant laws, regulations and standards including the adherence to the CBSL Direction on Corporate Governance.

The process through which the BIRMC discharges its responsibilities is detailed in the Risk Management section of this Annual Report.

BIRMC meetings

BIRMC meets on a quarterly basis. Accordingly, DFCC Bank convened four BIRMC meetings during 2018. The attendance of members is listed on page 96 of the Annual Report. The Committee continued to review policy frameworks, risk management strategies, risk capital position, key risk indicators and top and emerging risks at these meetings and was satisfied that the risk exposures of the Bank and the Group were being appropriately managed. During the financial year, the following key initiatives were achieved by the Committee:

A. Reviewed and approved the Internal Capital Adequacy Assessment Process (ICAAP) of DFCC Bank, which was a regulatory requirement with effect from January 2014. BIRMC took several key decisions on the capital management based on the outcome revealed by the ICAAP. They included recommending an Issue of a Basel III compliant convertible debt of Rs. 5 to 7 Bn in order to raise total capital base and to classify 5% ownership of the Commercial Bank investment as "Fair Value through P&L" under IFRS 9 and to sell at an appropriate price and time based on market conditions in order to enhance the Tier 1 capital. BIRMC will continue monitoring and proposing future capital requirements as per the Bank's growth targets for the next few years.

B. In relation to the Management of compliance risk, compliance risk indicators with different risk scales were reviewed and specific areas of focus were recognised based on the possible impact and the probability of occurrence.

C. Risk controls and monitoring tools were further improved with revisions to the overall risk limits system of the Bank from time to time and new advisory limits were put in place as trigger limits as required.

D. The Committee approved the revisions of credit rating model for leasing exposures subsequent to an external validation of the model. This revision focused on recognising the borrower risk profile more effectively thereby reducing the subjectivity in assigning the scores for the model parameters. These changes have been implemented in the Bank during the year. Further, the Committee approved a new rating model for the credit card exposures.

E. The Committee reviewed the Probability of Default (PD) based on the rating grades, Loss Given Default (LGD) for facilities and technical validation results for the credit rating models. These credit risk parameters are used in credit appraisal process, credit pricing and risk management.

F. The annual review of effectiveness and adequacy of the Management Committees was conducted by the BIRMC during the first quarter of 2018. The review results were shared with the respective committees for necessary improvements.

G. Reviewed and approved all the new products and redesign of any existing products of the Bank while taking both business and risk management perspective.

H. Reviewed and implemented the CBSL recommendations based on the examination report requirements in relation to the integrated risk management function of the Bank.

I. Having duly recognised the trends in increasing threats on systems and information security, the committee paid increased attention by reviewing the adequacy of the security in information systems and closely monitoring the action plans and implementation of new projects for further improving information systems security in the Bank. The fraud risk management procedures were further strengthened.

New risk management policies and guidelines were introduced covering agency banking arrangements and treasury middle office operations in relation to voice recording during the financial year, while all existing risk policies and practices were reviewed by the Committee in line with the Bank specific requirements, industry dynamics and regulatory specifications.

Reporting

The proceedings of the BIRMC meetings are reported to the Board through submission of the meeting minutes. Monthly Top and Emerging Risks and other specific matters are submitted separately for the Board's information. The recommendations made by the BIRMC during the year under review were duly approved by the Board.

T Dharmarajah

Chairman – Board Integrated Risk Management Committee

18 February 2019

Report of the Credit Approval Committee

Composition

The Credit Approval Committee of the Board of Directors consists of four Non-Executive Directors. C R Jansz is the Chairman with P M B Fernando, K P Cooray and J Durairatnam serving as members.

With effect from 21 December 2018 P M B Fernando functions as a non-voting member.

The Company Secretary functions as the Secretary of the Committee.

Mandate

The Committee carried out the tasks set out in the Terms of Reference approved by the Board. The primary purpose of the Committee is to review and where appropriate recommend or approve credit facilities which require approval above the delegated limit of the Management Credit Committee of the Bank.

Procedure

The Committee meets at least once a month and as and when required. The Committee invites the relevant officers to these meetings to clarify issues and for discussion relating to proposals that are submitted for review and also guides the Management in improving the credit policies, procedures, and on process improvements for monitoring and recovery action.

Meetings

The Committee held 13 meetings during the financial year to carry out its task. The attendance by members is given on page 96 of the Annual Report. The proceedings of the Committee meetings have been regularly reported to the Board of Directors. Credit facilities recommended by the Committee were submitted to the monthly meeting of the Board for approval.

C R Jansz
Chairman – Credit Approval Committee

18 February 2019

Report of the Related Party Transactions Review Committee

Composition

The Related Party Transactions Review Committee appointed by the Board of Directors, presently consists of four Non-Executive Directors and the Chief Executive Officer. T Dharmarajah, an Independent Director is the Chairman of the Committee. C R Jansz, K P Cooray, P M B Fernando and L H A L Silva are the other members.

The Company Secretary functions as the Secretary of the Committee

Mandate

The Committee adopted as its mandate, the tasks specified in Section 9 of the Colombo Stock Exchange (CSE) Listing Rules. The Terms of Reference of the Committee has been formally adopted by the Board.

The primary purpose of the Committee is to evaluate and consider all transactions with related parties of the Bank except the exempted transactions as set out in 9.5 of the Listing Rules of the CSE, in order to ensure that transactions with related parties are on normal commercial terms similar to those afforded to non-related parties.

Procedure

The Committee meets as and when required and at least once in a calendar quarter and makes recommendations to the Board for consideration.

The Committee has put in place the necessary processes to identify, review, disclose and monitor related party transactions according to the provisions contained in the Board approved Related Party Transactions Policy of the Bank.

The Bank obtains on a quarterly basis a declaration from all Key Management Personnel on a structured format to assist in the process of collating related party transactions. Relevant officers are informed of the applicable regulatory requirement relating to related party transactions and have been advised to submit a report on the prescribed format for transactions that require a review by the Committee.

Meetings

The Committee held 18 meetings during the financial year to carry out its task. The attendance by members is given on page 96 of the Annual Report. The proceedings of the Committee meetings have been regularly reported to the Board of Directors.

T Dharmarajah

Chairman – Related Party Transactions Review Committee

18 February 2019

Directors' Statement on Internal Control

Introduction

Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007 requires the Board of Directors ("the Board") to report on internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. This report is prepared to be in line with the said regulatory requirement.

Internal control system

The internal control system is the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of DFCC Bank PLC's ("the Bank") objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

The internal control system of the Bank consists of the following components:

a. The control environment;
b. The entity's risk assessment process;
c. The information system including the related business processes relevant to financial reporting and communication;
d. Control activities; and
e. Monitoring of controls.

The subset of this wider internal control system is the internal controls designed and implemented to provide reasonable assurance regarding the reliability of the financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

Responsibility

The Board acknowledges the responsibility for the adequacy and effectiveness of the Bank's system of internal controls, which is designed to provide assurance on the maintenance of proper accounting records and the reliability of financial information generated and safeguarding of the assets of the Bank.

However, such systems are designed to manage the Bank's key exposures to risk within acceptable risk parameters rather than to eliminate the risk of failure to achieve the business goals and objectives of the Bank. Therefore, the system of internal controls can only provide reasonable and not absolute assurance against errors or material misstatement of management and financial information and records or against financial losses and frauds.

Framework for managing material risks of the Bank

The Board has set up an ongoing process for identifying, monitoring and managing the material risks faced by the Bank. This includes establishment of a dedicated Risk Management Department that provides regular reports on various risks subjects to an oversight by the Internal Audit Department through Internal Audit Reports that enables the Audit Committee to review the adequacy and effectiveness of the system of internal controls continuously to match the changes in the business environment or regulatory guidelines. In making this assessment, all key processes relating to material or significant transactions captured and recorded in the books of accounts are identified and covered on an ongoing basis that is compatible with the guidance for Directors of Banks on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Key internal control processes

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- The Board has established Committees to assist them in exercising oversight on the effectiveness of the Bank's daily operations and ensuring that they are in accordance with the corporate objectives, strategies and the budgetary targets as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank verifies compliance of operations with policies and procedures and the adequacy and effectiveness of the internal control systems, and highlights significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which are

determined by the level of risk assessed to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committee of the Bank reviews internal control issues identified by the internal audit, the External Auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit function focusing on the scope of audits and the quality of reporting. The minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Report of the Audit Committee on page 114.
- The Board Integrated Risk Management Committee (BIRMC) was established by the Board to assist the Board to oversee the overall management of principal areas of risk of the Bank. The BIRMC includes representation from all key business and operations areas of the Bank and assists the Board in the implementation of policies, procedures and controls identified by the BIRMC.
- Operational Committees have also been established with appropriate mandates to ensure effective management and supervision of the Bank's core areas of business operations. These committees include the Management Committee, Credit Committees, the Asset/Liability Committee, the Impairment Assessment Committee and the Information Technology Steering Committee.

Assessment of the adequacy and effectiveness of internal control

Although this process is carried out every year on a continuing basis, the Direction on Corporate Governance issued by the Central Bank of Sri Lanka requires the Board to provide a separate report on the Bank's Internal Control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements supplemented with independent certification by the Auditor. The Auditors provide the independent Assurance Report in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) - 3050 issued by The Institute of Chartered Accountants of Sri Lanka.

In order to facilitate the tasks of the Auditors to issue the Independent Assurance Report, the SLSAE – 3050 requires documentation of all procedures and controls that are related to significant accounts and disclosures of the financial statements of the Bank with audit evidence of checks performed by the Bank on an ongoing basis.

The risk and significance based Internal Audit Plan implemented by the Internal Audit Department in consultation with the Board Audit Committee, specifically included on a sample basis; independent verification that the internal control process documented by the Bank, which is supported with audit evidence, was in fact carried out on an ongoing basis.

Adoption of Sri Lanka Accounting Standards – SLFRS 9 – Financial Instruments and SLFRS 15 Revenue from Contract with Customers

The Bank for the first time adopted SLFRS 9 and SLFRS 15 from 1 January 2018 and due to the transition method chosen by the Bank in applying SLFRS 9, comparative information throughout the financial statements have not been restated to reflect its requirements.

The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank.

SLFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities and has replaced LKAS 39 *"Financial Instruments: Recognition and Measurement"*. The requirements of SLFRS 9 represent a significant change from LKAS 39 and has brought fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Bank has made an assessment of the objective of the business model in which an asset is held at a portfolio level prior to concluding on the classification of the assets as it best reflects the way the business is managed and information is provided to management.

The concept of "Incurred loss" used under LKAS 39 has been replaced with "expected credit loss" under SLFRS 9. The Bank's models to calculate Expected Credit Losses (ECL) are inherently complex and judgement is applied in determining the correct construction of the models. There are also a number of key assumptions made by the Bank in applying the requirements of SLFRS 9 to the models including selection and input of forward looking information. These models were reviewed independently by external consultants.

The Bank will continue to focus on strengthening the review and testing process of the said models and the Internal Audit division will commence regular reviews of the same from the next financial year.

The computation of impairment losses from loans and receivables has not been automated yet. Considering the complexity and level of estimation involved in this process, the Board is in the process of evaluating the options available for automation. This evaluation process will also address the new parameter requirements, level of integration with the GL systems and minimising the manual intervention.

Management information

The comments made by the External Auditors in connection with internal control system for the financial year ended 31 December 2017 were reviewed during the year and appropriate steps have been taken to rectify the same.

The recommendations made by the External Auditor in the financial year ended 31 December 2018 in connection with the internal control system will be addressed in future.

The Directors are of the opinion that these recommendations are intended to further improve the internal control system and they do not in any way detract from the conclusion that the financial reporting system is reliable to provide reasonable assurance that the financial statements for external use are true and fair and complies with Sri Lanka Accounting Standards and the regulatory requirements of the Central Bank of Sri Lanka.

Confirmation

Based on the above detailed internal control mechanism and related processes of the Bank, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes is in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the statement by External Auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control for the year ended 31 December 2018 and their Independent Assurance Report is on page 126 of the Annual Report.

By Order of the Board,

P M B Fernando
Chairman - Audit Committee

C R Jansz
Chairman - Board of Directors

L H A L Silva
Chief Executive/Director

18 February 2019

Independent Assurance Report

KPMG

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To the Board of Directors of DFCC Bank PLC

We were engaged by the Board of Directors of DFCC Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the Annual Report for the year ended 31 December 2018.

Management's responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

Scope of the engagement in compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

(a) Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.

(b) Reviewed the documentation prepared by the Directors to support their statement made.

(c) Related the statement made by the Directors to our knowledge of the Bank obtained during the audit of the Financial Statements.

(d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.

(e) Attended meetings of the Audit Committee at which the Annual Report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.

(f) Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

(g) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included on pages 123 to 125 of this annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Bank.

Chartered Accountants

Colombo

18 February 2019

Financial Reports

Financial Calendar

2018

LKR 5.00 per share Final Dividend for 2017 paid on	12 March 2018
Audited financial statements signed on	18 February 2019
63rd Annual General Meeting to be held on	28 March 2019
LKR 3.50 per share Final Dividend for 2018 payable on	12 March 2019
1st Quarter Interim Results released on	26 April 2018
2nd Quarter Interim Results released on	26 July 2018
3rd Quarter Interim Results released on	1 November 2018

Proposed Financial Calendar

2019

1st Quarter Interim Results to be released in	April 2019
2nd Quarter Interim Results to be released in	July 2019
3rd Quarter Interim Results to be released in	November 2019
64th Annual General Meeting to be held in	March 2020

Statement of Directors' Responsibilities in Relation to Financial Statements

The Auditors' Report sets out the respective responsibilities of the Directors and Auditors relating to the financial statements and this statement provides additional information.

The Directors are required by relevant statutory provisions to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and the Group for that year. The statutory provisions are in the Companies Act No. 07 of 2007, and Banking Act No. 30 of 1988 and amendments thereto. The application of principal qualitative characteristics and appropriate accounting standards and regulatory requirements inclusive of specific disclosures would result in financial statements that convey a true and fair view of financial information and financial position.

The Directors are satisfied that the Bank and Group have the resources to continue in business for the foreseeable future and therefore, these financial statements are prepared on a going concern basis.

The financial statements for the year ended 31 December 2018 and the comparative period have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS).

The Directors are responsible for keeping proper accounting records and to take reasonable steps as far as practicable, to ensure the accuracy and reliability of accounting records, to enable the preparation of financial statements. The Directors have a general responsibility to take reasonable steps to safeguard the assets of the Bank. In discharging these responsibilities, the Directors have instituted a system of internal financial controls and a system for monitoring its effectiveness. These provide reasonable but not absolute assurance of safeguarding of the Bank's assets, maintenance of proper accounting records and the reliability of financial information.

The Board appointed Audit Committee chaired by an Independent Non-Executive Director who possesses qualifications and experience in accountancy and audit assists the Directors to discharge their responsibility on the integrity of financial reporting system and monitoring the effectiveness and adequacy of internal control system. This Committee has made an independent assessment of the financial reporting system of the Bank and confirmed that to the best of its knowledge and belief the financial statements issued for external purposes by the Bank complied with Sri Lanka Accounting Standards and complies with the statutory provisions of the Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 as amended. The report of the Audit Committee is on pages 114 to 116.

The Directors are in agreement with the assessment of the Audit Committee on the reliability of financial reporting system of the Bank and confirm that the financial statements prepared for external use is in accordance with relevant accounting principles and regulatory requirements. As part of institutional checks and balances and accountability, in addition to this Statement of Directors' Responsibilities in Relation to Financial Statements, the Directors have included the Chief Executive's and Chief Financial Officer's Statement of Responsibility on page 130.

By Order of the Board,

Ms A Withana
Company Secretary

Colombo

18 February 2019

Chief Executive's and Chief Financial Officer's Statement of Responsibility

The financial statements of DFCC Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries as at 31 December 2018 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act No. 07 of 2007,
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,
- Banking Act No. 30 of 1988 (as amended),
- Listing Rules of the Colombo Stock Exchange,
- Banking Act Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka (as amended from time to time) and
- Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka.

The formats used in the preparation of the financial statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka.

Financial statements are prepared in compliance with the Sri Lanka Financial Reporting Standards (SLFRS) issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 as amended and Directions issued there under relating to financial statements formats and disclosure of information.

The Accounting Policies used in the preparation of the financial statements are appropriate and are consistently applied by the Group. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation. The Board of Directors and the Management of the Bank accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgements relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements reflect true and fair view. To ensure this, the Bank has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis.

The Board of Directors assessed the effectiveness of the Bank's internal controls over financial reporting during the year ended 31 December 2018, as required by the Banking Act Direction No. 11 of 2007, result of which is given on page 123 to 125 in the Annual Report, the "Directors' Statement on Internal Control". External auditor's Independent Assurance Report on the "Directors' Statement on Internal Control" is given on page 126 of the Annual Report.

It is confirmed that the Bank has adequate resources to continue its operations in the foreseeable future. Therefore, the Bank will continue to adopt the "going concern" basis in preparing these financial statements.

Bank's internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Bank were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The financial statements of the Group were audited by Messrs KPMG. The Joint Venture company Acuity Partners (Pvt) Ltd and the Associate company National Asset Management Limited, are also audited by Messrs KPMG.

The Audit Committee of the Bank meets periodically with the internal auditors and the independent auditors to review the manner in which the external auditor performs their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditor and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance. Details of which are given in the "Audit Committee Report" on pages 114 to 116.

The Audit Committee approves the audit and non-audit services provided by external auditor, Messrs KPMG, in order to ensure that the provision of such services do not impair KPMG's independence.

We confirm that,

- the Bank and its subsidiaries have complied with all applicable laws, regulations and prudential requirements;
- there are no material non compliances; and
- there are no material litigations that are pending against the Group other than those disclosed in the Note 55.2 to the financial statements in this Annual Report.

L H A L Silva
Director/Chief Executive Officer

Chinthika Amarasekara
Chief Financial Officer
Colombo

18 February 2019

Independent Auditors' Report

KPMG
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1 To the shareholders of DFCC Bank PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of DFCC Bank PLC ("the Bank") and the consolidated financial statements of the Bank and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 December 2018, and income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 136 to 242 of this Annual Report.

In our opinion, the accompanying financial statements of the Bank and the Group give a true and fair view of the financial position of the Bank and the Group as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Bank financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Bank's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances and transition with the adoption of SLFRS 9 – "Financial Instruments"

Refer to the accounting policies in "Note 5.3.7 to the Financial Statements: Identification and measurement of impairment", "Note 2.7 to the Financial Statements: Critical accounting estimates and judgements", "explanatory Note 30 and 16 to the Financial Statements: Loans and receivables from other customers and Impairment for loans and other losses" and "Note 2.8.2 to the Financial Statements: SLFRS 9 – Financial Instruments".

Risk description	Our responses
As disclosed in Note 30 to these financial statements, the Bank has recorded loans to and receivables from other customers of LKR 261,299 Mn as at 31 December 2018 and there is high degree of complexity and judgement involved for the Bank in estimating individual and collective impairment of LKR 11,566 Mn as at that date. Given the complexity of SLFRS 9 and its expected pervasive impact on the financial sector we focused on the Bank's disclosure of the expected impact of measuring credit losses on loans and receivables and the significant judgement exercised by the Bank. The Bank's models to calculate ECLs are inherently complex and judgement is applied in determining the correct construct of the models. There are also a number of key assumptions made by the Bank in applying the requirements of SLFRS 9 to the models including selection and input of forward-looking information. As permitted by the transitional provision of SLFRS 9, the impact of adopting SLFRS 9 is considered as an adjustment to equity as at 1 January 2018 (Day One), without restating the comparative information. The Note 2.8.2 to these financial statement provides the impact on transition to SLFRS 9 – "Financial Instruments" on retained earnings as at 1 January 2018. The Group has applied new accounting policies, including transition option election and practical expedients with the application of new significant judgements and estimates which are subject to estimation uncertainty and management bias. The allowance for credit impairment has been identified as a key audit matter as the Bank has significant credit exposure to number of customers across a wide range of lending and other products and industries.	Our audit procedures to assess impairment of loans and advances to customers included the following: *Assessing impairment for individually significant customers* → We selected a sample (based on quantitative thresholds) of larger customers where impairment indicators have been identified by Management. We obtained Management's assessment of the recoverability of these exposures (including individual impairment calculations) and challenged whether individual impairment provisions, or lack of, were appropriate. *This included the following procedures* → Challenging recoverability of the forecasted cash flows by comparing them to the historical performance of the customers and the expected future performance where applicable; → Assessing external collateral valuer's credentials and comparing external valuations to values used in Management's impairment assessments; → For a sample of customers loans which were not identified as displaying indicators or impairment by Management, challenged this assessment by reviewing the historical performance of the customers and from our own view whether any impairment indicators were present. *Assessing the adequacy of collectively assessed provisions* → Testing governance and controls over the application of collective provision model adjustments. This included assessing the components of model adjustments, trends in the credit risk concentration of specific portfolios and our understanding of economic conditions. → Performing analytical procedures to independently derive an estimate and compared the Bank's collective provisions. → Testing the completeness and accuracy of key assumptions and data flows into the collective provision models; and

Risk description	Our responses
	Our audit procedures for transition to the SLFRS 9 on 1 January 2018 included the following: → Assessing the Bank's significant accounting policies against the requirements of SLFRS 9 → Assessing the Bank's ECL modelling methodology and for a sample of models testing key credit modelling assumptions in the ECL models against the requirements of SLFRS 9 and underlying accounting records → Assessing forward-looking economic assumptions and the development of economic scenarios against external economic information and the application into the ECL models → Testing data reconciliation controls between the ECL models and source systems → Testing the accuracy of the modelled calculations by re performing the ECL calculations on a sample basis; and → Assessing the disclosures in the financial statements against the requirements of Sri Lanka Accounting Standards

IT systems and controls over financial reporting

Risk description	Our responses
The Bank's key financial accounting and reporting processes are highly dependent on the automated controls over the Bank's information systems. As such that there exist a risk that gaps in the IT control environment, including automated accounting procedures, IT dependent manual controls and controls preventing unauthorised access to systems and data could result in the financial accounting and reporting records being materially misstated. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Bank's IT controls	We used our internal IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included the following: *General IT controls design, observation and operation* → Testing the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change Management, programme development and computer operations *User access controls operation* → Assessing the Management's evaluation of access rights granted to applicants relevant to financial accounting and reporting systems and tested resolution of a sample of exceptions. → Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our Auditor's Report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditors' Report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditors' Report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our Auditors' Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Bank.

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditors' Report FCA 2294.

KPMG

Chartered Accountants
Colombo, Sri Lanka

18 February 2019

Income Statement

For the year ended 31 December	Notes	Page No.	BANK 2018 LKR 000	BANK 2017 LKR 000	GROUP 2018 LKR 000	GROUP 2017 LKR 000
Income	9	161	**39,153,874**	35,941,612	**39,448,486**	35,987,091
Interest income			**38,148,193**	32,986,590	**38,149,896**	32,994,636
Interest expenses			**25,733,360**	21,643,982	**25,691,119**	21,597,373
Net interest income	10	161	**12,414,833**	11,342,608	**12,458,777**	11,397,263
Fee and commission income			**2,012,563**	1,591,336	**2,012,443**	1,591,943
Fee and commission expenses			**–**	–	**–**	–
Net fee and commission income	11	162	**2,012,563**	1,591,336	**2,012,443**	1,591,943
Net (loss)/gain from trading	12	163	**(366,657)**	361,963	**(366,657)**	361,963
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	13	164	**2,650,664**	(404,586)	**2,650,664**	(404,586)
Net gains from derecognition of financial assets	14	164	**19,114**	1,558	**19,114**	1,558
Net other operating income	15	165	**(3,310,003)**	1,404,751	**(3,016,974)**	1,441,577
Total operating income			**13,420,514**	14,297,630	**13,757,367**	14,389,718
Impairment for loans and other losses	16	166	**1,056,230**	1,176,413	**1,056,230**	1,170,366
Net operating income			**12,364,284**	13,121,217	**12,701,137**	13,219,352
Operating expenses						
Personnel expenses	17	169	**3,408,312**	3,141,032	**3,555,980**	3,277,316
Depreciation and amortisation expenses			**462,343**	369,121	**510,128**	410,949
Other expenses	18	171	**2,801,898**	2,360,002	**2,806,774**	2,365,958
Operating profit before value added tax, nation building tax and debt repayment levy on financial services			**5,691,731**	7,251,062	**5,828,255**	7,165,129
Value added tax, nation building tax and debt repayment levy on financial services	19	172	**1,459,070**	1,458,749	**1,459,070**	1,458,749
Operating profit after value added tax, nation building tax and debt repayment levy on financial services			**4,232,661**	5,792,313	**4,369,185**	5,706,380
Share of profits of associate and joint venture			**–**	–	**307,218**	185,030
Profit before income tax			**4,232,661**	5,792,313	**4,676,403**	5,891,410
Income tax expense	20	172	**1,464,482**	1,377,349	**1,606,176**	1,457,653
Profit for the year			**2,768,179**	4,414,964	**3,070,227**	4,433,757
Profit attributable to:						
Equity holders of the Bank			**2,768,179**	4,414,964	**3,011,018**	4,362,407
Non-controlling interests			**–**	–	**59,209**	71,350
Profit for the year			**2,768,179**	4,414,964	**3,070,227**	4,433,757
Basic earnings per ordinary share (LKR)	21	174	**10.44**	16.65	**11.36**	16.46

Notes to the financial statements from pages 145 to 242 form part of these financial statements.

Statement of Comprehensive Income

For the year ended 31 December	BANK 2018 LKR 000	BANK 2017 LKR 000	GROUP 2018 LKR 000	GROUP 2017 LKR 000
Profit for the year	**2,768,179**	4,414,964	**3,070,227**	4,433,757
Other comprehensive income/(expenses) for the year, net of tax				
Items that will be reclassified to income statement				
Net change in fair value through other comprehensive income/available-for-sale financial assets	**(1,371,412)**	206,651	**(1,371,412)**	206,651
Net amount transferred to income statement on disposal of fair value through other comprehensive income/available-for-sale financial assets	**(1,649)**	(1,188,907)	**(1,649)**	(987,323)
Share of other comprehensive income/(expenses) of equity accounted associate and joint venture	**–**	–	**39,721**	(22,308)
Net gain/loss on cash flow hedges				
Effective portion of changes in fair value	**892,967**	–	**892,967**	–
Reclassified to profit or loss	**(809,400)**	–	**(809,400)**	–
Deferred tax effect relating to fair value through other comprehensive income/available-for-sale financial assets	**361,154**	(268,545)	**361,154**	(268,545)
Total other comprehensive expenses that will be reclassified subsequently to income statement	**(928,340)**	**(1,250,801)**	**(888,619)**	**(1,071,525)**
Items that will not be reclassified to income statement				
(Losses)/gains on remeasurement of defined benefit plans	**(11,881)**	32,399	**(11,765)**	36,411
Net loss on equity instruments measured at fair value through other comprehensive income	**(1,951,466)**	–	**(1,951,466)**	–
Share of other comprehensive income of equity accounted associate and joint venture	–	–	**1,189**	651
Deferred tax effect relating to items that will not be reclassified to income statement	**9,215**	2,600	**9,141**	2,028
Total other comprehensive (expenses)/income on items that will not be reclassified to income statement	**(1,954,132)**	34,999	**(1,952,901)**	39,090
Other comprehensive expenses for the year, net of tax	**(2,882,472)**	(1,215,802)	**(2,841,520)**	(1,032,435)
Total comprehensive (expenses)/income for the year	**(114,293)**	3,199,162	**228,707**	3,401,322
Total comprehensive (expenses)/income attributable to:				
Equity holders of the Bank	**(114,293)**	3,199,162	**169,355**	3,329,750
Non-controlling interests	**–**	–	**59,352**	71,572
Total comprehensive (expenses)/income for the year	**(114,293)**	3,199,162	**228,707**	3,401,322

Notes to the financial statements from pages 145 to 242 form part of these financial statements.

Statement of Financial Position

As at	Notes	Page No.	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Assets						
Cash and cash equivalents	24	178	**5,039,629**	4,106,225	**5,049,823**	4,120,230
Balances with Central Bank of Sri Lanka	25	179	**11,841,814**	10,557,688	**11,841,814**	10,557,688
Placements with banks	26	179	**425,087**	6,691,381	**439,727**	6,712,131
Derivative assets held-for-risk management	27	179	**3,414,549**	66,440	**3,414,549**	66,440
Financial assets measured at fair value through profit or loss/financial assets held-for-trading	28	181	**6,078,862**	310,922	**6,078,862**	310,922
Financial assets at amortised cost – Loans to and receivables from banks	29	182	**12,854,880**	10,984,266	**12,854,880**	10,984,266
Financial assets at amortised cost – Loans to and receivables from other customers	30	183	**249,733,718**	213,675,866	**249,733,718**	213,675,866
Financial assets at amortised cost – Debt and other instruments/held to maturity	31	186	**22,874,088**	23,507,632	**22,874,088**	23,507,632
Financial assets measured at fair value through other comprehensive income/ financial assets available for sale	32	188	**55,313,553**	56,866,054	**55,313,553**	**56,866,054**
Investments in subsidiaries	33	192	**167,036**	167,036	**–**	–
Investments in associate	34	194	**35,270**	35,270	**31,107**	67,266
Investments in joint venture	35	194	**755,000**	755,000	**1,957,455**	1,616,711
Due from subsidiaries	36	195	**9,505**	12,083	**–**	–
Investment property	37	196	**9,879**	–	**496,559**	318,653
Property, plant and equipment	38	197	**1,620,375**	1,273,250	**1,718,904**	1,371,161
Intangible assets	39	199	**668,834**	498,084	**686,288**	502,411
Goodwill on consolidation	40	200	**–**	–	**156,226**	156,226
Government grant receivable	41	201	**–**	642,583	**–**	642,583
Deferred tax asset	42	202	**491,523**	–	**492,678**	3,160
Other assets	43	203	**3,574,276**	2,957,562	**3,621,780**	2,988,462
Total assets			**374,907,878**	333,107,342	**376,762,011**	334,467,862
Liabilities						
Due to banks	44	203	**9,446,464**	9,640,735	**9,446,464**	9,640,735
Derivative liabilities held-for-risk – management	27	179	**121,373**	367,435	**121,373**	367,435
Financial liabilities at amortised cost – Due to depositors	45	203	**242,237,596**	193,307,534	**241,914,870**	192,920,147
Financial liabilities at amortised cost – Due to other borrowers	46	204	**47,413,727**	41,319,591	**47,388,679**	41,290,874
Debt securities issued	47	204	**8,898,441**	24,443,767	**8,898,441**	24,443,767
Retirement benefit obligation	48	205	**408,704**	330,578	**433,315**	352,710
Current tax liability			**1,221,117**	633,636	**1,294,540**	655,488

As at	Notes	Page No.	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Deferred tax liability	42	202	–	1,194,027	**90,402**	1,232,478
Government grant – deferred income	41	201	–	654,583	–	654,583
Other liabilities	49	210	**4,458,721**	4,135,820	**4,662,423**	4,304,918
Subordinated term debt	50	210	**16,855,352**	9,202,870	**16,855,352**	9,202,870
Total liabilities			**331,061,495**	285,230,576	**331,105,859**	285,066,005
Equity						
Stated capital	51	211	**4,715,814**	4,715,814	**4,715,814**	4,715,814
Statutory reserve	52	211	**2,358,275**	2,224,275	**2,358,275**	2,224,275
Retained earnings	53	212	**17,187,262**	13,858,152	**20,107,150**	17,359,513
Other reserves	54	212	**19,585,032**	27,078,525	**18,216,689**	24,825,383
Total equity attributable to equity holders of the Bank			**43,846,383**	47,876,766	**45,397,928**	49,124,985
Non-controlling interests			–	–	**258,224**	276,872
Total equity			**43,846,383**	47,876,766	**45,656,152**	49,401,857
Total equity and liabilities			**374,907,878**	333,107,342	**376,762,011**	334,467,862
Contingent liabilities and commitments	55	212	**137,143,668**	135,571,324	**137,143,668**	135,571,324
Net assets value per share, LKR			**165.40**	180.60	**171.25**	185.31

The notes to the financial statements from pages 145 to 242 form part of these financial statements.

I certify that these financial statements comply with the requirements of the Companies Act No. 07 of 2007.

Amarasekara

Chinthika Amarasekara
Chief Financial Officer

For and on behalf of the Board of Directors,

C R Jansz
Chairman
Colombo

Lakshman Silva
Director and Chief Executive

18 February 2019

Statement of Changes in Equity

		Statutory reserve	Other reserves				
	Stated capital LKR 000	Reserve fund LKR 000	Fair value reserve LKR 000	Hedging reserve LKR 000	General reserve LKR 000	Retained earnings LKR 000	Total equity LKR 000
Bank							
Balance as at 31.12.2016	**4,715,814**	**2,004,275**	**14,549,487**	**–**	**13,779,839**	**10,800,251**	**45,849,666**
Profit for the year	–	–	–	–	–	4,414,964	4,414,964
Other comprehensive (expenses)/ income, net of tax	–	–	(1,250,801)	–	–	34,999	(1,215,802)
Total comprehensive (expenses)/income for the year	–	–	(1,250,801)	–	–	4,449,963	3,199,162
Transfers	–	220,000	–	–	–	(220,000)	–
Transactions with equity holders, recognised directly in equity							
Forfeiture of unclaimed dividends	–	–	–	–	–	20,878	20,878
Final dividend approved on 20.02.2017	–	–	–	–	–	(1,192,940)	(1,192,940)
Total contributions from and distribution to equity holders		–	–	–	–	(1,172,062)	(1,172,062)
Balance as at 31.12.2017	**4,715,814**	**2,224,275**	**13,298,686**	**–**	**13,779,839**	**13,858,152**	**47,876,766**
Adjustment on initial application of SLFRS 9, net of tax (Note 2.8.2.4)	–	–	(4,551,014)	–	–	2,017,938	(2,533,076)
Restated balance as at 01.01.2018	**4,715,814**	**2,224,275**	**8,747,672**	**–**	**13,779,839**	**15,876,090**	**45,343,690**
Profit for the year	–	–	–	–	–	2,768,179	2,768,179
Other comprehensive (expenses)/ income, net of tax	–	–	(2,939,974)	60,168	–	(2,666)	(2,882,472)
Total comprehensive (expenses)/ income for the year	–	–	(2,939,974)	60,168	–	2,765,513	(114,293)
Transfers	–	134,000	–	–	–	(134,000)	–
Transfer of gains/(losses) on disposal/write off of equity investments at fair value through other comprehensive income to retained earnings	–	–	(62,673)	–	–	75	(62,598)
Transactions with equity holders, recognised directly in equity							
Forfeiture of unclaimed dividends	–	–	–	–	–	5,073	5,073
Final dividend approved on 19.02.2018	–	–	–	–	–	(1,325,489)	(1,325,489)
Total contributions from and distribution to equity holders	–	–	–	–	–	(1,320,416)	(1,320,416)
Balance as at 31.12.2018	**4,715,814**	**2,358,275**	**5,745,025**	**60,168**	**13,779,839**	**17,187,262**	**43,846,383**

	Attributable to the equity holders of the Bank									
		Statutory reserve	Other reserves							
	Stated capital	Reserve fund	Fair value reserve	Exchange equalisation reserve	Hedging reserve	General reserve	Retained earnings	Total	Non-controlling interests	Total equity
	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000	LKR 000
Group										
Balance as at 31.12.2016	**4,715,814**	**2,004,275**	**12,085,454**	**33,428**	**–**	**13,779,839**	**14,231,009**	**46,849,819**	**259,900**	**47,109,719**
Profit for the year	–	–	–	–	–	–	4,362,407	4,362,407	71,350	4,433,757
Other comprehensive (expenses)/ income, net of tax	–	–	(1,052,971)	(20,367)	–	–	40,681	(1,032,657)	222	(1,032,435)
Total comprehensive (expenses)/income for the year	–	–	(1,052,971)	(20,367)	–	–	4,403,088	3,329,750	71,572	3,401,322
Transfers	–	220,000	–	–	–	–	(220,000)	–	–	–
Transactions with equity holders, recognised directly in equity										
Forfeiture of unclaimed dividends	–	–	–	–	–	–	20,878	20,878	–	20,878
Change in holding through joint venture	–	–	–	–	–	–	117,478	117,478	–	117,478
Final dividend approved on 20.02.2017	–	–	–	–	–	–	(1,192,940)	(1,192,940)	–	(1,192,940)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(54,600)	(54,600)
Total contributions from and distribution to equity holders	–	220,000	–	–	–	–	(1,274,584)	(1,054,584)	(54,600)	(1,109,184)
Balance as at 31.12.2017	**4,715,814**	**2,224,275**	**11,032,483**	**13,061**	**–**	**13,779,839**	**17,359,513**	**49,124,985**	**276,872**	**49,401,857**
Adjustment on initial application of SLFRS 9, net of tax (Note 2.8.2.4)	–	–	(3,707,124)	–	–	–	1,189,617	(2,517,507)	–	(2,517,507)
Restated balance as at 01.01.2018	**4,715,814**	**2,224,275**	**7,325,359**	**13,061**	**–**	**13,779,839**	**18,549,130**	**46,607,478**	**276,872**	**46,884,350**
Profit for the year	–	–	–	–	–	–	3,011,018	3,011,018	59,209	3,070,227
Other comprehensive (expense)/ income, net of tax	–	–	(2,968,839)	69,774	60,168	–	(2,766)	(2,841,663)	143	(2,841,520)
Total comprehensive (expense)/income for the year	–	–	(2,968,839)	69,774	60,168	–	3,008,252	169,355	59,352	228,707
Transfers	–	134,000	–	–	–	–	(134,000)	–	–	–
Transfer of gains/(losses) on disposal/write off of equity investments at fair value through other comprehensive income to retained earnings	–	–	(62,673)	–	–	–	75	(62,598)	–	(62,598)
Transactions with equity holders, recognised directly in equity										
Forfeiture of unclaimed dividends	–	–	–	–	–	–	5,073	5,073	–	5,073
Change in holding through joint venture	–	–	–	–	–	–	4,109	4,109	–	4,109
Final dividend approved on 19.02.2018	–	–	–	–	–	–	(1,325,489)	(1,325,489)	–	(1,325,489)
Dividend distributed to non-controlling interest by subsidiaries	–	–	–	–	–	–	–	–	(78,000)	(78,000)
Total contributions from and distribution to equity holders	–	–	–	–	–	–	(1,316,307)	(1,316,307)	(78,000)	(1,394,307)
Balance as at 31.12.2018	**4,715,814**	**2,358,275**	**4,293,847**	**82,835**	**60,168**	**13,779,839**	**20,107,150**	**45,397,928**	**258,224**	**45,656,152**

Statement of Cash Flows

For the year ended 31 December	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Cash flows from operating activities				
Interest receipts	**21,879,208**	24,258,984	**21,919,677**	24,257,743
Interest payments	**(23,669,321)**	(19,308,381)	**(23,631,703)**	(19,267,517)
Net commission receipts	**1,965,693**	1,684,812	**1,965,693**	1,684,812
Net trading income	**6,271,792**	(311,731)	**6,271,792**	(311,731)
Recoveries from loans previously written-off	**10,460**	36,768	**10,460**	36,769
Receipts from other operating activities	**3,276,220**	1,338,987	**3,823,357**	1,813,361
Payments on other operating activities	**(2,878,077)**	(2,406,996)	**(2,878,077)**	(2,406,996)
Cash payments to employees	**(3,680,695)**	(3,188,464)	**(3,983,485)**	(3,473,725)
Value added tax, nation building tax and debt repayment levy on financial services	**(1,168,279)**	(1,298,496)	**(1,168,279)**	(1,298,496)
Operating cash flows before changes in operating assets and liabilities	**2,007,001**	805,483	**2,329,435**	1,034,220
(Increase)/decrease in operating assets:				
Balances with Central Bank/deposits held for regulatory or monetary control purposes	**(1,284,129)**	(2,495,121)	**(1,284,129)**	(2,495,121)
Financial assets at amortised cost – Loans to and receivables from other customers	**(28,536,076)**	(26,935,976)	**(28,536,076)**	(26,935,976)
Others	**3,606,060**	690,451	**3,702,214**	723,354
Increase/(decrease) in operating liabilities:				
Financial liabilities at amortised cost – Due to depositors	**46,675,218**	50,738,651	**46,608,731**	50,599,577
Negotiable certificates of deposits	**79,186**	(259,665)	**79,186**	(259,665)
Others	**(2,995,967)**	206,374	**(2,995,967)**	206,374
Net cash flows from operating activities before income tax	**19,551,293**	22,750,197	**19,903,394**	22,872,763
Income tax paid	**(318,441)**	(1,404,889)	**(346,537)**	(1,455,337)
Net cash flows from operating activities	**19,232,852**	21,345,308	**19,556,857**	21,417,426
Cash flows from investing activities				
Dividends received from investment in subsidiaries, joint venture and associate	**594,901**	680,893	**524,646**	629,428
Interest received	**6,706,368**	6,122,521	**6,746,070**	6,171,449
Government securities – net	**(22,736,595)**	(9,062,415)	**(22,736,595)**	(9,062,415)
Proceeds from sale and redemption of securities	**1,262,943**	2,960,619	**1,262,943**	2,960,619
Purchase of financial investments	**(402,563)**	(1,661,972)	**(399,563)**	(1,674,972)
Net cashflow on acquisition of investment in additional shares of subsidiaries – (Synapsys Ltd.)	**–**	(65,000)	**–**	–
Purchase of property, equipment, intangibles and investment property	**(1,093,170)**	(880,905)	**(1,307,636)**	(992,860)
Proceeds from sale of equipment and investment property	**5,895**	8,944	**5,876**	16,196
Net cash flows used in investing activities	**(15,662,221)**	(1,897,315)	**(15,904,259)**	(1,952,555)

For the year ended 31 December	BANK 2018 LKR 000	BANK 2017 LKR 000	GROUP 2018 LKR 000	GROUP 2017 LKR 000
Cash flows from financing activities				
Issue of debentures	**7,000,000**	–	**7,000,000**	–
Redemption of debentures	**–**	(5,000,000)	**–**	(5,000,000)
Borrowing, medium and long-term	**7,385,449**	11,510,776	**7,385,449**	11,510,776
Other borrowings – net	**(33,701)**	(15,718,589)	**(33,701)**	(15,718,589)
Repayment of borrowing, medium and long-term	**(21,969,027)**	(3,943,757)	**(21,969,027)**	(3,943,757)
Dividends paid	**(1,286,242)**	(1,180,868)	**(1,378,130)**	(1,241,185)
Net cash flows used in financing activities	**(8,903,521)**	(14,332,438)	**(8,995,409)**	(14,392,755)
Net (decrease)/increase in cash and cash equivalents	**(5,332,890)**	5,115,555	**(5,342,811)**	5,072,116
Cash and cash equivalents at the beginning of year	**10,797,606**	5,682,051	**10,832,361**	5,760,245
Cash and cash equivalents at the end of year	**5,464,716**	10,797,606	**5,489,550**	10,832,361
Reconciliation of cash and cash equivalents with items reported in the statement of financial position				
Cash and cash equivalents (Note 24)	**5,039,629**	4,106,225	**5,049,823**	4,120,230
Placements with banks (Note 26)	**425,087**	6,691,381	**439,727**	6,712,131
	5,464,716	10,797,606	**5,489,550**	10,832,361

The Statement of Cash Flows of the Bank includes the results of associate, joint venture and subsidiary companies only to the extent of the cash flows between Bank and respective companies as required by Sri Lanka Accounting Standards.

Reconciliation of profit for the year to net cash flows from operating activities.

	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Profit for the year	**2,768,179**	4,414,964	**3,070,227**	4,433,757
Add/(deduct) items not using (providing) cash:	**4,092,028**	2,406,558	**3,838,616**	2,265,556
Depreciation – Property, equipment and investment property	**313,255**	259,548	**359,237**	300,142
Amortisation – Intangible assets	**149,088**	109,573	**150,891**	110,807
Unrealised (gain)/loss on trading securities	**1,038,919**	(91,252)	**1,038,919**	(91,252)
Net (gain)/loss from financial instruments at fair value				
– Contracts with commercial banks	**(2,688,008)**	314,489	**(2,688,008)**	314,489
– CBSL Swap	**(58,990)**	86,277	**(58,990)**	86,277
Interest rate swap fair value changes	**(11,549)**	3,820	**(11,549)**	3,820
Amortisation of deferred income on Government grant	**46,990**	85,973	**46,990**	85,973
Foreign exchange loss	**4,255,763**	849,494	**4,255,763**	849,494
Impairment for loans and other losses	**1,056,230**	1,176,413	**1,056,230**	1,170,366
Notional tax credit on Treasury Bills and Bonds	**(143,940)**	(505,381)	**(143,940)**	(505,381)
Share of profits of associate and joint venture	**–**	–	**(307,218)**	(185,030)
Provision for defined benefit plans	**134,270**	117,604	**140,291**	125,851
Deduct items reported gross under investing activities:	**(7,249,939)**	(7,321,540)	**(7,119,625)**	(7,036,538)
Dividend income	**(933,088)**	(889,883)	**(801,071)**	(798,420)
Gains on sale of Government securities	**(3,206)**	(1,558)	**(3,206)**	(1,558)
Gain on sale of equity securities	**(15,908)**	(1,150,368)	**(15,908)**	(948,783)
Gain on sale of equipment and investment property	**(5,176)**	(11,299)	**(5,176)**	(11,299)
Interest income from investments	**(6,292,561)**	(5,268,432)	**(6,294,264)**	(5,276,478)
Deduct changes in operating assets and liabilities:	**19,622,584**	21,845,326	**19,767,639**	21,754,651
(Increase)/decrease in account receivables	**(4,518,512)**	2,922,640	**(4,277,981)**	2,468,411
Increase/(decrease) in account payables	**2,078,472**	(2,309,758)	**1,927,625**	(1,847,605)
Increase/(decrease) in income tax payable	**2,832,782**	(369,905)	**2,910,437**	(351,377)
Increase/(decrease) in deferred tax	**1,685,550**	(342,365)	**1,633,599**	(353,321)
Increase in operating assets	**(26,214,145)**	(28,740,646)	**(26,117,991)**	(28,707,743)
Increase in operating liabilities	**43,758,437**	50,685,360	**43,691,950**	50,546,286
Net cash flows from operating activities	**19,232,852**	21,345,308	**19,556,857**	21,417,426

Notes to the Financial Statements

1 Reporting entity →

DFCC Bank PLC ("Bank") is a limited liability public company incorporated and domiciled in Sri Lanka.

The Bank was incorporated in 1955 under DFCC Bank Act No. 35 of 1955 as a limited liability public company and the ordinary shares of the Bank were listed in the Colombo Stock Exchange (CSE).

Consequent to the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, the DFCC Bank Act No. 35 of 1955 was repealed and the Bank was incorporated under the Companies Act No. 07 of 2007 as a public limited company listed in the Colombo Stock Exchange with the name "DFCC Bank PLC" with effect from 6 January 2015.

The Registrar General of Companies on 1 October 2015 issued the Certificate of Amalgamation in terms of Section 244 (1) (a) of the Companies Act No. 07 of 2007 that DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC in accordance with the provisions of Part VIII of the Companies Act No. 07 of 2007 with DFCC Bank PLC surviving as the amalgamated entity.

DFCC Bank PLC (DFCC) also obtained a commercial banking license from the Monetary Board of the Central Bank of Sri Lanka in terms of the Banking Act No. 30 of 1988, as amended, and accordingly upon the amalgamation now operates as a licensed commercial bank.

The registered office of the Bank is at 73/5, Galle Road, Colombo 3.

The Bank does not have an identifiable parent of its own. The Bank is the ultimate parent of the Group companies.

Total employee population of the Bank and the Group on 31 December 2018 was 1,860 and 1,963 respectively. (31 December 2017 – 1,770 and 1,869 respectively.)

A summary of principal activities of DFCC Bank PLC, its subsidiary companies, associate company and joint venture company is as follows:

Entity	Principal Business Activity
DFCC Bank PLC	Range of financial services such as accepting deposits, corporate credit and retail banking, personal financial services, project financing, investment banking, foreign currency operations, trade finance and dealing in Government Securities and Treasury-related products
Subsidiaries	
DFCC Consulting (Pvt) Limited	Technical, financial, and other professional consultancy services in Sri Lanka and abroad.
Lanka Industrial Estates Limited	Leasing of land and buildings to industrial enterprises.
Synapsys Limited	Information technology services and information technology enabled services.
Associate	
National Asset Management Limited	Management of Unit Trust and private portfolios
Joint venture	
Acuity Partners (Pvt) Limited	Investment banking-related financial services.

There were no significant changes in the nature of the principal activities of the Group during the financial year under review.

2 Basis of preparation →

2.1 Statement of compliance

The consolidated financial statements of the Group and the separate financial statements of the Bank, which comprise the statement of financial position, income statement, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007 and the Banking Act No. 30 of 1988 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange (CSE).

2.2 Approval of Financial Statements by Directors

The Financial Statements are authorised for issue by the Board of Directors on 18 February 2019.

2.3 Consolidated and separate Financial Statements

The Bank's financial statements comprise the amalgamation of the financial statements of the Domestic Banking Unit (DBU) and the Foreign Currency Banking Unit (FCBU).

DFCC Bank PLC as the parent of subsidiaries under its control is required to present only the consolidated financial statements as per Sri Lanka Accounting Standard – SLFRS 10 on "Consolidated Financial Statements" and the proportionate share of the profit or loss and net assets of its Associates and joint Ventures in terms of the Sri Lanka Accounting Standard – LKAS 28 on "Investments in Associates and Joint Ventures" . In addition to the consolidated financial statements, separate financial statements are also presented as per the Companies Act, No. 07 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

2.4 Basis of measurement

The consolidated and separate financial statements of the Bank have been prepared on the historical cost basis except for the following material items in the statement of financial position:

Financial instruments

Item as per LKAS 39	Item as per SLFRS 9	Basis of measurement	Note	Page
Assets held for trading	Financial assets measured at fair value through profit or loss	Fair value	28	181
Derivative assets and derivative liabilities held-for-risk management	Derivative assets and derivative liabilities held for risk management	Fair value	27	179
Financial assets available for sale	Financial assets measured at fair value through other comprehensive income	Fair value	32	188

Non-financial assets/liabilities

Item	Basis of measurement	Note	Page
Retirement benefit obligations	Present value of the defined benefit pension obligation less the net total of the pension assets maintained in DFCC Bank Pension Fund, a trust separate from the Bank.	48	205
The defined benefit statutory end of service gratuity obligations	Present value of the defined benefit gratuity obligation.	48	205

2.5 Materiality and aggregation

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

2.6 Functional and presentation currency

The consolidated and separate financial statements of the Bank are presented in Sri Lanka Rupees (LKR) being the, functional and presentation currency, rounded to the nearest thousand and, unless otherwise stated.

2.7 Critical accounting estimates and judgements

2.7.1 General

In the preparation of separate financial statements and consolidated financial statements, the Bank makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses.

Management discusses with the Board Audit Committee the development, selection, and disclosure of critical accounting policies and their application, and assumptions made relating to major estimation uncertainties.

The use of available information and application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to estimates in a subsequent financial year, if any, are adjusted prospectively.

2.7.2 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes.

Applicable to year 2018 only:

- Note 5.3.2.2: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial assets are Solely Payment of Principal and Interest (SPPI) on the principal amount outstanding.
- Note 61.2: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval models used to measure ECL.

Applicable to years 2018 and 2017

- Note 4: determination of control over investees.
- Going Concern: the directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the financial statements continue to be prepared on the going concern basis.

2.7.3 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment included in the following notes.

Applicable to year 2018 only

- Note 16 and note 61.2: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward looking information.

Applicable to years 2018 and 2017

- Note 60.1: determination of the fair value of financial instruments with significant unobservable inputs.
- Note 48.3.8: measurement of defined benefit obligations: key actuarial assumptions.
- Note 20 and note 42: recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be utilised.
- Note 5.3.7.3: impairment testing for Cash Generating Units (CGU) containing goodwill: key assumptions underlying recoverable amounts.
- Note 55: recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Note 16: impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

2.8. Changes in accounting policies

The Group has consistently applied the accounting policies to all periods presented in these financial statements, except for the changes arising out of transition to SLFRS – 15 "Revenue from Contracts with

Customers" and SLFRS – 9 "Financial Instruments" explained below:

2.8.1 SLFRS 15 – "Revenue from Contracts with Customers"

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. New qualitative and quantitative disclosure requirements aim to enable financial statements users to understand the nature, amount, timing and uncertainty of revenue, and cash flows arising from contracts with customers.

Entities will apply five step model to determine when to recognise revenue and at what amount. The model specified that revenue is recognised when or as an entity transfers control of goods and services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised.

It replaces existing revenue recognition guidance, including LKAS 18 – "Revenue" and LKAS 11 – "Construction Contracts" and IFRIC 13 – "Customer Loyalty Programmes".

2.8.2 SLFRS 9 – "Financial Instruments"

The Bank has adopted SLFRS 9 – "Financial Instruments", issued in July 2014, with a date of initial application of 1 January 2018. The requirements of SLFRS 9 represent a significant change from LKAS 39 – "Financial Instruments: Recognition and Measurement." The new Standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Bank's accounting policies resulting from its adoption of SLFRS 9 are summarised below.

2.8.2.1 Classification of financial assets and financial liabilities

SLFRS 9 contains three principal classification categories for financial assets – i.e., measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing LKAS 39 categories of held to maturity, loans and receivables and available for sale. The SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, although under LKAS 39, all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

2.8.2.2 Impairment of financial assets

SLFRS 9 replaces the "incurred loss" model in LKAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets that are not measured at FVTPL and also to certain loan commitments and financial guarantee contracts but not to equity investments.

Under SLFRS 9, credit losses are recognised earlier than under LKAS 39.

2.8.2.3 Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not been restated.

In order to recognise the impact on transition the Bank has adopted the modified retrospective approach in line with paragraph 7.2.14 – Transition of "SLFRS 9 – Financial instruments."

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2018 under SLFRS 9.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - (i) The determination of the business model within which a financial asset is held.
  - (ii) The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - (iii) The designation of certain investments in equity instruments not held for trading as at FVOCI.

2.8.2.4 Impact on adoption of SLFRS 9 "Financial Instruments" to the Financial Statements

The following table summarises the impact, net of tax, of transition to SLFRS 9 – "Financial Instruments" on reserves and retained earnings as at 1 January 2018.

	BANK		GROUP	
	Retained earnings LKR 000	Fair value reserve LKR 000	Retained earnings LKR 000	Fair value reserve LKR 000
Balance as per LKAS 39 as at 31 December 2017	**13,858,152**	**13,298,686**	**17,359,513**	**11,032,483**
Impact on reclassification and remeasurements:				
Classification of quoted equity securities as financial assets measured at FVTPL	4,714,753	(4,714,753)	3,871,843	(3,871,843)
Fair value of unqouted equity securities previously accounted at cost	–	163,739	–	163,739
Impact on recognition of expected credit losses:				
Expected credit losses under SLFRS 9 for				
– Loans to and receivable form Bank	(38,363)	–	(38,363)	–
– Loans to and receivable form other customers	(3,660,777)	–	(3,660,776)	–
– Financial assets at amortised cost (Debt securities)	(1,728)	–	(1,728)	–
Deferred tax impact on expected credit loss	1,004,053	–	1,004,053	–
Other group adjustment	–	–	14,588	980
Adjustment on initial application of SLFRS 9, net of tax	2,017,938	(4,551,014)	1,189,617	(3,707,124)
Restated balance as at 01 January 2018	**15,876,090**	**8,747,672**	**18,549,130**	**7,325,359**

As per the directive No 4 of 2018 issued by Central Bank of Sri Lanka on adoption of Sri Lanka Accounting Standard – SLFRS 9: Financial Instruments, for the purpose of calculating Capital Adequacy Ratio, Bank has considered the day 1 impact arising from the adoption of SLFRS 9 at the transition date, 1 January 2018. Accordingly, the Tier 1 Capital Adequacy Ratios as at 31 December 2018 of the Bank and Group have decreased by 0.78% and 1.20% respectively.

2.8.2.5 classification of financial assets and financial liabilities on the date of initial application of SLFRS 9 – "Financial Instruments"

The following table shows the original measurement categories as per LKAS 39 – "Financial Instruments: Recognition and Measurement" and the new measurement categories as per SLFRS 9 – "Financial Instruments" along with their carrying amounts for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

Item	Note	Classification/ measurement as per LKAS 39	Classification/ measurement as per SLFRS 9	BANK		GROUP	
				Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000	Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000
Derivative assets held for risk management	27	FVTPL measured at fair value	FVTPL measured at fair value	66,440	66,440	66,440	66,440
Financial assets measured at FVTPL/Financial assets held for trading	28						
Government Securities		HFT measured at fair value	FVTPL measured at fair value	279,094	279,094	279,094	279,094
Quoted equity investments		HFT measured at fair value	FVTPL measured at fair value	31,828	31,828	31,828	31,828

Item	Note	Classification/ measurement as per LKAS 39	Classification/ measurement as per SLFRS 9	BANK		GROUP	
				Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000	Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000
Quoted equity investments		AFS measured at fair value	FVTPL measured at fair value	6,320,867	6,320,867	6,320,867	6,320,867
Unit Trust		AFS measured at fair value	FVTPL measured at fair value	838,952	838,952	838,952	838,952
Financial assets at amortised cost - Loans to and receivables from banks	29	L & R measured at amortised cost	Amortised cost measured at amortised cost	10,984,266	10,945,903	10,984,266	10,945,903
Financial assets at amortised cost - Loans to and receivables from other customers	30	L & R measured at amortised cost	Amortised cost measured at amortised cost	213,675,866	210,015,089	213,675,866	210,015,089
Financial assets at amortised cost - Debt and other instruments/Held to maturity	31						
Quoted debentures		HTM measured at amortised cost	Amortised cost measured at amortised cost	5,131,404	5,129,676	5,131,404	5,129,676
Government Securities		HTM measured at amortised cost	Amortised cost measured at amortised cost	18,376,228	18,376,228	18,376,228	18,376,228
Financial assets measured at fair value through other comprehensive income/ Available-for-sale	32						
Government Securities		AFS measured at fair value	FVOCI measured at fair value	37,746,039	37,746,039	37,746,039	37,746,039
Quoted equity securities		AFS measured at fair value	Irrevocably elected to classified as FVOCI measured at fair value	11,874,141	11,874,141	11,874,141	11,874,141
Unquoted equity securities		AFS measured at fair value	Irrevocably elected to classified as FVOCI measured at fair value	85,555	249,294	85,555	249,294
Preference shares		AFS measured at fair value	FVOCI measured at fair value	500	500	500	500
Total financial assets				**305,411,180**	**301,874,051**	**305,411,180**	**301,874,051**

Item	Note	Classification/ measurement as per LKAS 39	Classification/ measurement as per SLFRS 9	BANK		GROUP	
				Carrying amount as per LKAS 9 LKR 000	Carrying amount as per SLFRS 9 LKR 000	Carrying amount as per LKAS 39 LKR 000	Carrying amount as per SLFRS 9 LKR 000
Derivative liabilities held for risk management	27	FVTPL measured at fair value	FVTPL measured at fair value	367,435	367,435	367,435	367,435
Financial liabilities at amortised cost – Due to depositors	45	Amortised cost measured at amortised cost	Amortised cost measured at amortised cost	193,307,534	193,307,534	192,920,147	192,920,147
Financial liabilities at amortised cost – Due to other borrowers	46	Amortised cost measured at amortised cost	Amortised cost measured at amortised cost	41,319,591	41,319,591	41,290,874	41,290,874
Debt securities issued	47	Amortised cost measured at amortised cost	Amortised cost measured at amortised cost	24,443,767	24,443,767	24,443,767	24,443,767
Total financial liabilities				**259,438,327**	**259,438,327**	**259,022,223**	**259,022,223**

3 Basis of consolidation →

3.1 General

The consolidated financial statements are the financial statements of the Group, prepared by consistent application of consolidation procedures, which include amalgamation of the financial statements of the parent and subsidiaries and accounting for the investments in associate company and joint venture company on the basis of reported results and net assets of the investee instead of the direct equity interest.

Thus, the consolidated financial statements present financial information about the Group as a single economic entity distinguishing the equity attributable to the parent (controlling interest) and attributable to minority shareholders with non-controlling interest.

3.2 Transactions eliminated on consolidation

Intra-group balances and transactions, including income, expenses, and dividend are eliminated in full.

3.3 Financial statements of subsidiaries, associate company and joint venture company included in the consolidated financial statements

Audited financial statements are used for consolidation of companies which have a similar financial year end, as the Bank and for other a special review is performed.

Financial statements of Lanka Industrial Estates Limited included in the consolidation has financial year ending 31 March.

The financial statements of DFCC Consulting (Pvt) Limited, Acuity Partners (Pvt) Limited, Synapsys Limited and National Asset Management Limited included in the consolidation have financial years ending on 31 December.

3.4 Significant events and transactions during the period between date of financial statements of the subsidiaries, associate company and joint venture company and the date of financial statements of the Bank

No adjustments to the results of subsidiaries, associate company and joint venture company have been made as there were no significant events or transactions.

3.5 Financial statements used for computation of goodwill or negative goodwill on date of acquisition

This is based on unaudited financial statements proximate to the date of acquisition.

3.6 Taxes on the undistributed earnings of subsidiaries, associate company and joint venture company

The distribution of the undistributed earnings of the subsidiaries, associate company, and joint venture company is remote in the foreseeable future. As such, 14% withholding tax applicable on the distribution has not been treated as a tax expense in the financial statements of the Group.

4 Scope of consolidation

All subsidiaries have been consolidated.

4.1 Subsidiary companies

Subsidiaries' are investees controlled by the Group. The Group "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Acquisition method of accounting is used when subsidiaries are acquired by the Bank. Cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange.

Acquisition-related costs are recognised as an amount of the expense in the profit or loss in the period of which they are incurred. The acquirer's identifiable assets, liabilities, and contingent liabilities are generally measured at their fair value at the date of acquisition.

Goodwill is measured as the excess of the aggregate consideration transferred, the amount of non-controlling interest and the fair value of Banks previously held equity interest if any, over the net of the amount of the identifiable assets acquired and the liabilities assumed.

The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquirer's identifiable net assets.

In a business combination achieved in stages, the previously held equity interest is premeasured at the acquisition date fair value with a resulting gain or loss in the income statement.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Note 33 on page 192 contains the financial information relating to subsidiaries.

4.2 Associate company

Associate company is the enterprise over which the Bank has significant influence that is neither a subsidiary nor an interest in a joint venture. The Bank has only one associate company, National Asset Management Limited. The consolidated financial statements include the Bank's share of the total comprehensive income of the associate company, on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

Note 34 on page 194 contain financial information relating to the associate company.

4.3 Joint venture company

Joint venture company is an incorporated enterprise in which the Bank owns 50% of the voting shares with a contractual arrangement with the other company, who owns the balance 50% of the voting shares, in terms of which both parties have joint control over that enterprise. The results of the joint venture company are consolidated using equity method.

Note 35 on page 194 contains the financial information relating to joint venture company.

5 Principal accounting policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied consistently by the Group in presenting and preparing the financial statements. Changes in accounting policies are made, only if the Sri Lanka Accounting Standards require such changes or when a change results in providing more relevant information. New policies are formulated as appropriate to new products and services provided by the Group or new obligations incurred by the Group.

5.1 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured.

5.1.1 Interest income and expense

Details of interest income and expenses are given in Note 10 on pages 161 to 162.

5.1.2 Net fees and commission

Details of commission income and expenses are given in Note 11 on pages 162 to 163.

5.1.3 Net (loss)/gain from trading

Details of net (loss)/gain from trading are given in Note 12 on page 163.

5.1.4 Net fair value gains/(losses) from financial instruments at fair value through profit or loss

Details of net fair value gain/(loss) from Financial Instruments at Fair Value Through Profit or Loss are given in Note 13 on page 164.

5.1.5 Net gains from derecognition of financial assets

Details of net gains from derecognition of financial assets are given in Note 14 on page 164.

5.1.6 Net other operating income

Details of net gain/(loss) from financial instruments are given in Note 15 on page 165.

5.1.7 Foreign exchange gain/(loss)

Items included in the financial statements of the Bank are measured in Sri Lankan rupees denoted as LKR which is the currency of the primary economic environment in which the Bank operates ("the functional currency") as well as the presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the average exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the average exchange rate ruling at the reporting date (viz. date of the statement of financial position) and consequently recognised in the net other operating income in the income statement of the Bank except for qualifying cash flow hedges. The average exchange rate used is the middle rates quoted by commercial banks for purchase or sale of the relevant foreign currency.

The Bank does not have any non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency.

Foreign exchange income recognised in the income statement is presented as follows, based on the underlying classification:

(i) Foreign exchange gain/(loss) which is part of a trading activity comprising profit or loss from the sale and purchase of foreign currencies for spot exchange is included as net gain from trading (Note 12).

(ii) Foreign exchange income or loss on derivatives held-for-risk management purposes and mandatory measured at fair value through profit or loss is recognised as net gain/loss from financial instruments at fair value through profit or loss (Note 13).

The Bank does not have any foreign operation that is a subsidiary, associate, joint venture or a branch and therefore, there is no exchange differences recognised in other comprehensive income.

5.1.8 Other expenses

All other expenses are recognised on an accrual basis.

5.2 Other taxes

5.2.1 Withholding tax on dividend distributed by subsidiaries, associate company and joint venture company

Dividend distributed out of the taxable profit of the subsidiaries, associate company and joint venture company suffers a 14% deduction at source and is not available for set-off against the tax liability of the Bank. Thus the withholding tax deducted at source, is added to the tax expense of the subsidiary companies, the associate company, and joint venture company in the Group's financial statements as a consolidation adjustment.

5.2.2 Withholding tax on dividends distributed by the Bank

Withholding tax that arises from the distribution of dividends by the Bank is recognised at the time the liability to pay the related dividend is recognised .

5.2.3 Economic services charge (ESC)

As per provisions of the Economic Services Charge (ESC) Act No. 13 of 2006 and subsequent amendments thereto, ESC is payable on aggregate turnover of the Bank at 0.5% and is deductible from income tax payable.

5.2.4 Crop insurance levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently the CIL is payable at 1% of the profit after tax.

5.3 Financial assets

5.3.1 Recognition and measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

Loans and advances are initially recognised on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortised cost.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

All other financial assets are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Basis of measurement applicable before 1 January 2018 and after 1 January 2018 is set out in Note 2.4

5.3.2 Classification

5.3.2.1 Policy applicable after 1 January 2018

On initial recognition, the Bank classifies financial assets as measured at:

- Amortised cost,
- Fair value through other comprehensive income (FVOCI); and,
- Fair value through profit or loss (FVTPL)

The subsequent measurement of financial assets depends on their classification.

5.3.2.1.1 Financial assets measured at amortised costs

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model (explained in Note 5.3.2.2) whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

5.3.2.1.2 Financial assets at fair value through other comprehensive income

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

5.3.2.1.3 Financial assets at fair value through profit or loss

All financial assets other than those classified at amortised costs or FVOCI are classified as measured at FVTPL.

5.3.2.1.3.1 Financial assets are mandatorily fair valued through profit and loss when the instruments

- are held for trading, or
- are managed, evaluated and reported internally on a fair value basis, or
- designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- contains an embedded derivative that significantly modifies the cash flows which would otherwise have been required under the contract.

5.3.2.1.3.2 Financial assets designated at fair value through profit or loss

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Bank has not designated any financial asset upon initial recognition at fair value through profit or loss as at the reporting date.

5.3.2.2 Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the Management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether Management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities

- that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's Management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

5.3.2.3 Assessments whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

5.3.2.4 Policy applicable before 1 January 2018

At the inception, a financial asset is classified and measured at fair value and classified as follows:

- **Loans and receivables** – at amortised cost.
- **Held to maturity** – non-derivative financial assets with fixed or determinable payments and fixed maturity (for example, bonds, debentures and debt instruments listed in the Colombo Stock Exchange) that the Bank has the positive intent and ability to hold to maturity are measured at amortised cost.
- **Fair value through profit or loss** – financial assets held for trade measured at fair value with changes in fair value recognised in the income statement.
- **Designated at fair value** – this is an option to deal with accounting mismatches and currently the Bank has not exercised this option.
- **Derivative assets** – are mandatorily measured at fair value with fair value changes recognised in the income statement.
- **Available for sale** – this is measured at fair value and is the residual classification with fair value changes recognised in other comprehensive income.

5.3.3 Reclassification

Policy applicable after 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except and only in those rare circumstances when the Bank's changes its objective of the business model for managing such financial assets.

Financial Liabilities are not reclassified as such reclassifications are not permitted by SLFRS 9.

5.3.3.1 Timing of reclassification of financial assets

Consequent to the change in the business model, the Bank reclassifies all affected assets prospectively from the first day of the next reporting period (the reclassification date). Prior periods are not restated.

5.3.3.2 Measurement of reclassification of financial assets

5.3.3.2.1 Reclassification of financial instruments at "fair value through profit or loss"

- To Fair value through other comprehensive income The fair value on reclassification date becomes the new gross carrying amount. The EIR is calculated based on the new gross carrying amount. Subsequent changes in the fair value are recognised in OCI.

- To amortised costs the fair value on reclassification date becomes the new carrying amount. The EIR is calculated based on the new gross carrying amount.

5.3.3.2.2 Reclassification of financial instruments at "fair value through other comprehensive income"

- To fair value through profit or loss
  The accumulated balance in OCI is reclassified to profit and loss on the reclassification date.
- To amortised costs
  The financial asset is reclassified at fair value. The cumulative balance in OCI is removed and is used to adjust the reclassified fair value. The adjusted amount becomes the amortised cost. EIR determined at initial recognition and gross carrying amount are not adjusted as a result of reclassification.

5.3.3.2.3 Reclassification of financial instruments at "amortised costs"

- To Fair value through other comprehensive income
  The asset is remeasured to fair value, with any difference recognised in OCI. EIR determined at initial recognition is not adjusted as a result of reclassification.
- To Fair value through profit or loss
  The fair value on the reclassification date becomes the new carrying amount. The difference between amortised cost and fair value is recognised in profit and loss.

Policy applicable before 1 January 2018

The group classified its financial assets into one of the following categories:

- Loans and receivable
- Held-to-maturity
- Available for sale and
- At FVTPL, and within this category as:
  – held-for-trading: or
  – designated as at FVTPL

5.3.4 Derecognition of financial assets

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired; or when Bank has transferred its contractual right to receive the cash flows of the financial assets, and either –

- Substantially all the risks and rewards of ownership have been transferred;
  or
- Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecogntion that is created or retained by the group is recognised as a separate asset or liability.

5.3.5 Modifications of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets
If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual right to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and new financial asset is recognised at fair value plus any eligible transaction cost. Any fees received as part of the modification are accounted as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on the derecognition.

If cash flows are modified when the borrower is in financial difficulty, then the objective of the modification is usually to minimise recovery of the original contractual term rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates a gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as modification gain or loss in profit or loss. For floating- rate financial asset, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the financial asset.

5.3.6 Fair value measurement

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active, if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as end of the reporting period during which the change has occurred.

5.3.7 Identification and measurement of impairment

5.3.7.1 Policy applicable after 1 January 2018

5.3.7.1.1 Recognition of impairment of financial assets

The Bank recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Lease receivables;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of "investment grade". 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

5.3.7.1.2 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;

- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components: The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

5.3.7.2 Policy applicable before 1 January 2018

At each reporting date, the Bank assesses whether there is an objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) that can be estimated reliably.

5.3.7.2.1 Loans and advances and held-to-maturity investment securities

Objective evidence that loans and advances and held-to-maturity investment securities (e.g., debt instruments quoted in the Colombo Stock Exchange, Treasury Bills and Bonds) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group or economic conditions that correlate with defaults in the Group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific and collective level. Details of the individual and collective assessment of impairments are given in Note 16 on pages 166 to 169.

5.3.7.2.2 Available-for-sale financial assets

At each date of statement of financial position an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a “loss event”) and that loss event (or events) have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset’s acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

5.3.7.2.3 Available-for-sale debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date. Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial recognition, or the disappearance of an active market for the debt security.

These types of specific events and other factors such as information about the issuers’ liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

5.3.7.2.4 Available-for-sale equity securities

Objective evidence of impairment for available-for-sale equity securities may include specific information about the issuer and information about significant changes in technology, markets, economics or the law that provide evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, a decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the income statement.
- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

5.3.7.3 Impairment of intangible assets – computer application software and goodwill on consolidation

The Bank reviews on the date of the statement of financial position, whether the carrying amount is lower than the recoverable amount. In such event, the carrying amount is reduced to the recoverable amount and the reduction being an impairment loss is immediately recognised in the income statement. The recoverable amount is the value in use.

5.3.8 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under SLFRSs/LKASs or for gains and losses arising from a group of similar transactions.

5.3.9 Fiduciary assets

Assets held in a fiduciary capacity are not reported in these financial statements as they do not belong to the Bank.

5.3.10 Write-off of financial assets

The Bank writes off a loan or an investment debt security, and any related allowances for impairment losses, when Bank determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

5.4 Financial liabilities

5.4.1 Recognition and measurement of financial liabilities

Policy applicable after 1 January 2018

On initial recognition, the Bank classifies financial liabilities, other than financial guarantees and loan commitments, into one of the following categories:

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through profit or loss,

Policy applicable before 1 January 2018

Deposits, borrowing from foreign multilateral, bilateral sources and domestic sources, debt securities issued and subordinated liabilities are initially recognised on the date at which they are originated. A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at fair value or amortised cost. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount.

5.4.2 Classification and subsequent measurement of financial liabilities

The subsequent measurement of financial liabilities depends on their classification.

5.4.2.1 Financial liabilities at amortised cost

Financial Liabilities issued by the Bank that are not designated at fair value through profit or loss are recognised initially at fair value plus any directly attributable transaction costs, by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Deposit liabilities including savings deposits, current deposits, fixed/time deposits, call deposits, certificates of deposit and debentures are classified as financial liabilities measured at amortised cost.

The EIR amortisation is included in "Interest expense" in the income statement. Gains and losses too are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

5.4.2.2 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities held for risk management purposes

5.4.3 Derecognition of Financial Liabilities

Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

5.4.4 Due to Banks, customers, debt securities issued and other borrowing

Financial liabilities are recognised when Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

5.4.5 Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

5.4.6 Sale and repurchase agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos"), they remain on the statement of financial position and a liability is recorded in respect of the consideration received.

Securities purchased under commitments to sell ("reverse repos") are not recognised on the statement of financial position and the consideration paid is recorded in "Financial assets at amortised cost – Loans to and receivables from banks", "Financial assets at amortised cost – Loans to and receivables from other customers" as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement for loans and advances to banks and customers.

5.5 Stated capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets.

5.6 Dividends Payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are declared and approved by Board of Directors.

Dividends for the year, that are approved after the reporting date and not provided for, are disclosed as an event after the reporting period in accordance with the Sri Lanka Accounting Standard – LKAS 10, on "Events after the reporting period" in Note 59 on page 222.

6 Statement of Cash Flows →

The cash flow has been prepared by using the "Direct Method". Cash and cash equivalents include cash balances, time deposits and Treasury Bills of three months maturity at the time of issue. For the purpose of cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

7 Directors' responsibility →

The Directors acknowledge the responsibility for true and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards.

8 New SLFRS issued and not yet effective →

SLFRS 16 – "Leases"

SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases.

Instead, there will be a single on-balance sheet accounting model that is similar to current finance lease accounting.

SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group/Bank is assessing the potential impact on its financial statements resulting from the application of SLFRS 16.

9 Income →

For the year ended 31 December	BANK 2018 LKR 000	BANK 2017 LKR 000	GROUP 2018 LKR 000	GROUP 2017 LKR 000
Interest income (Note 10)	**38,148,193**	32,986,590	**38,149,896**	32,994,636
Net fee and commission income (Note 11)	**2,012,563**	1,591,336	**2,012,443**	1,591,943
Net (loss)/gain from trading (Note 12)	**(366,657)**	361,963	**(366,657)**	361,963
Net fair value gains/(losses) from financial instruments at fair value through profit or loss (Note 13)	**2,650,664**	(404,586)	**2,650,664**	(404,586)
Net gains from derecognition of financial assets (Note 14)	**19,114**	1,558	**19,114**	1,558
Net other operating income (Note 15)	**(3,310,003)**	1,404,751	**(3,016,974)**	1,441,577
	39,153,874	35,941,612	**39,448,486**	35,987,091

10 Net interest income →

Accounting Policy →

Interest Income and expense for all interest-bearing financial instruments are recognised under "Interest Income" and "Interest Expense" in the income statement, using the effective interest rate of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash receipts or payments earned or paid on a financial asset or financial liability through its expected life (or, where appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, Bank estimates future cash flows considering all contractual terms of the financial instruments but not expected credit losses.

The calculation of the effective interest includes all transaction cost, premiums or discounts and fees paid or received by the Bank that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

From 1 January 2018, with the adoption of Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments" the Bank has aligned its interest recognition policy with internal risk management practices. As per the internal risk management policies of the Bank, the facilities are considered to be credit impaired when three or more instalments are in arrears and the Bank has estimated that the probability of recoverability of the interest income from such loan facilities are low. Accordingly the Bank discontinues recognition of interest income on such loan facilities and cash flows are assessed based on the amortised cost net of interest. If the asset is no longer credit impaired the calculation of interest income reverts to the gross basis.

As per LKAS 8 – "Accounting Policies, Changes in Accounting Estimate and Errors", this change is treated as a change in estimate and did not result in retrospective adjustments.

For the year ended 31 December	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Interest income				
Placements with banks	**274,164**	123,369	**275,868**	131,415
Financial assets measured at fair value through profit or loss/financial assets held for trading	**63,624**	41,523	**63,624**	41,523
Financial assets at amortised cost – Loans to and receivables from banks	**659,520**	928,176	**659,520**	928,176
Financial assets at amortised cost – Loans to and receivables from other customers	**31,196,112**	26,789,982	**31,196,112**	26,789,982
Financial assets at amortised cost – Debt and other instruments/held to maturity	**2,160,287**	2,433,596	**2,160,287**	2,433,596
Financial assets measured at fair value through other comprehensive income/financial assets available for sale	**3,794,486**	2,669,944	**3,794,485**	2,669,944
Total interest income	**38,148,193**	32,986,590	**38,149,896**	32,994,636
Interest expenses				
Due to banks	**871,842**	979,281	**871,842**	979,281
Financial liabilities at amortised cost – Due to depositors	**18,730,263**	15,293,031	**18,688,021**	15,246,422
Financial liabilities at amortised cost – Due to other borrowers	**2,179,549**	1,645,138	**2,179,549**	1,645,138
Debt securities issued	**3,951,706**	3,726,532	**3,951,707**	3,726,532
Total interest expenses	**25,733,360**	21,643,982	**25,691,119**	21,597,373
Net interest income	**12,414,833**	11,342,608	**12,458,777**	11,397,263

10.1 Net interest income from Sri Lanka Government Securities

	BANK		GROUP	
	2018 LKR 000	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Interest income	**7,124,130**	6,438,939	**7,124,130**	6,438,939
Less: Interest expenses	**629,778**	664,792	**629,778**	664,792
Net interest income from Sri Lanka Government Securities	**6,494,352**	5,774,147	**6,494,352**	5,774,147

This comprise net gain from repurchase transactions included in Note 15.

11 Net fee and commission income →

Accounting Policy →

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. When a loan commitment is not expected to result in the draw down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees for guarantees and trade related commissions are recognised on a straight-line basis over the period of the contract. Other fees and commission expense relate mainly to transaction and service fees, which are expensed, as the services are received.

The Bank has adopted SLFRS 15 on "Revenue from Contracts with Customers" from 1 January 2018. The Accounting Policy which had been applied by the Bank did not require any changes.

For the year ended 31 December	BANK 2018 LKR 000	BANK 2017 LKR 000	GROUP 2018 LKR 000	GROUP 2017 LKR 000
Fee and commission income	**2,012,563**	1,591,336	**2,012,443**	1,591,943
Fee and commission expenses	**–**	–	**–**	–
Net fee and commission income	**2,012,563**	1,591,336	**2,012,443**	1,591,943
Comprising:				
Loans and advances	**708,689**	537,363	**708,569**	537,363
Credit cards	**38,311**	12,566	**38,311**	12,566
Trade and remittances	**541,248**	416,423	**541,248**	416,423
Customer accounts	**444,792**	373,214	**444,792**	373,214
Guarantees	**259,962**	206,798	**259,962**	206,798
Others (Management, consulting and other fees)	**19,561**	44,972	**19,561**	45,579
Net fee and commission income	**2,012,563**	1,591,336	**2,012,443**	1,591,943

12 Net (loss)/gain from trading →

Accounting Policy →

Results arising from trading activities include all gains and losses from realised and unrealised fair value changes, related capital gains and losses, dividend income from trading assets and trading liabilities and foreign exchange differences.

For the year ended 31 December	BANK 2018 LKR 000	BANK 2017 LKR 000	GROUP 2018 LKR 000	GROUP 2017 LKR 000
Foreign exchange from banks	**402,015**	270,395	**402,015**	270,395
Government securities				
– Net marked to market (loss)/gain	**(726)**	726	**(726)**	726
– Net capital (loss)/gain	**(40,639)**	66,810	**(40,639)**	66,810
Equity securities				
Net marked to market (loss)/gain	**(1,018,554)**	5,242	**(1,018,554)**	5,242
Net capital gain	**21,000**	18,474	**21,000**	18,474
Dividend income	**270,247**	316	**270,247**	316
	(366,657)	361,963	**(366,657)**	361,963

13 Net fair value gains/(losses) from financial instruments at fair value through profit or loss →

Accounting Policy →

The Bank has non-trading derivatives held for risk management purposes (e.g., forward foreign exchange purchase or sale contracts) that do not form part of qualifying hedge relationship, that are mandatorily fair valued through profit or loss. In respect of such financial instruments, all realised and unrealised fair value changes and foreign exchange differences are included.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Forward exchange fair value changes				
– Contracts with commercial banks	**2,688,008**	(314,489)	**2,688,008**	(314,489)
– Contract with CBSL (Note 41.1)	**58,990**	(86,277)	**58,990**	(86,277)
Loss on financial assets fair value through profit or loss Equity securities	**(107,883)**	–	**(107,883)**	–
Interest rate swap fair value changes	**11,549**	(3,820)	**11,549**	(3,820)
	2,650,664	(404,586)	**2,650,664**	(404,586)

14 Net gains from derecognition of financial assets →

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Fair value through profit or loss				
Gain on sale of equity securities	**15,908**	–	**15,908**	–
Fair value through other comprehensive income				
Gain on sale of Government securities	**3,206**	1,558	**3,206**	1,558
	19,114	1,558	**19,114**	1,558

15 Net other operating income

Accounting Policy

Net other operating income includes realised gain or loss on sale of fair value through other comprehensive income securities (e.g., Treasury Bills and Bonds, and dividend income from ordinary shares classified as fair value through other comprehensive income financial assets, dividend income from group entities, rental income, gains on disposal of property, plant and equipment and foreign exchange gains and losses.

Rental income

Rental income and expenses are accounted on a straight-line basis over the entire period of the tenancy incorporating predetermined rent escalation during the period of the tenancy.

Dividend income

Dividend income is recognised when the right to receive payment is established. Dividend income are presented in net gain/(loss) from trading and net other income, net based on underlying classification of the equity investment. Where the dividend clearly represents a recovery of part of the cost of the investment, it is presented in other comprehensive income.

Dividend income from subsidiaries and joint venture is recognised when the Bank's right to receive the dividend is established.

Gains and losses on disposal of assets

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment and other non-current assets including investments in subsidiaries, joint ventures and associates are accounted for, in the statement of profit or loss after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

Foreign exchange gain/(loss)

Foreign currency positions are revalued at each reporting date. Gains and losses arising from changes in fair value are included in the income statement in the period in which they arise.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Financial assets measured at fair value through other comprehensive income/financial assets available for sale				
Gain on sale of equity securities	–	1,150,368	–	948,783
Dividend income	**527,424**	798,104	**527,424**	798,104
Equities measured at fair value through profit or loss				
Dividend income	**3,400**	–	**3,400**	–
Dividend income from subsidiaries, joint venture and associate	**132,017**	91,463	–	–
Net gain from repurchase transactions	**237,005**	196,356	**237,005**	196,356
Premises rental income	**44,456**	39,383	**309,118**	262,021
Gain on sale of property, plant and equipment	**5,175**	11,299	**5,175**	11,299
Foreign exchange loss	**(4,255,763)**	(849,494)	**(4,255,763)**	(849,494)
Recovery of loans written-off	**10,460**	36,769	**13,104**	36,769
Amortisation of deferred income on Government grant – CBSL swap (Note 41.2)	**(46,990)**	(85,973)	**(46,990)**	(85,973)
Others	**32,813**	16,476	**190,553**	123,712
	(3,310,003)	1,404,751	**(3,016,974)**	1,441,577

16 Impairment for loans and other losses →

Accounting policy applicable for periods before and after 1 January 2018

Individually assessed loans and advances and held-to-maturity debt instruments

These are exposures, where evidence of impairment exists and those that are individually significant meriting individual assessment for objective evidence of impairment and computation of impairment allowance. The factors considered in determining that the exposures are individually significant include –

- the size of the loan; and
- the number of loans in the portfolio.

For all loans and held-to-maturity debt instruments that are considered individually significant, Bank assesses on a case by case basis, whether there is any objective evidence of impairment. The criteria used by the Bank to determine that there is such objective evident include –

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Impairment allowance on loans and advances and other financial instruments measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written-back by reducing the loan impairment allowance accordingly. The write-back is recognised in the income statement.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up-to-date loans for measurement purposes once a minimum number of payments required have been received.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

Write-off of loans and advances

Loans (and the related impairment allowance) are normally written-off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Asset-backed-securities

These are included in loans and advances. When assessing for objective evidence of impairment, Bank considers the performance of underlying collateral.

Policy applicable from 1 January 2018

SLFRS 9 – "Financial Instruments" – Key transition impacts on impairment

The Group recognises loss allowance using Expected Credit Losses (ECL) on loans and receivables to customers and other financial assets measured at amortised cost model using dual measurement approach which the loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "stage 1 Financial Instruments".

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a life-time ECL is recognised but which are not credit-impaired are referred to as "stage 2 Financial Instruments", and credit impaired are referred to as "stage 3 Financial Instruments"

Measurement of impairment of financial assets

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Collective assessment:

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

These loans and advances are grouped together as per Basel Guidelines and product level according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In making an assessment of whether an investment in debt instrument is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component the Bank presents a combined loss allowance for both components The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Policy applicable before 1 January 2018

Collective assessment:

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

- Import loans
- Export loans
- Corporate term loans
- Overdraft
- Personal loans
- Finance leases
- Project loans
- Credit cards

These loans and advances are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the default rates, the timing of recoveries and the amount of loss incurred, adjusted for experience adjustment by the Management, where current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Default rates, loss rates and the expected timing of future recoveries will be regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Individually assessed loans for which, no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. This reflects impairment losses that Bank has incurred as a result of events occurring before the reporting date which the Bank is not able to identify on an individual basis and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans and held-to-maturity investment securities within the Group, these are removed from the Group and assessed on an individual basis for impairment. The collective impairment allowance is based on historical loss experience adjusted by Management's experienced judgement.

Impairment allowance on loans and advances and held-to-maturity investment securities measured at mortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Loans to and receivables from Banks				
Collective allowance for impairment (Note 29.2)	**5,088**	–	**5,088**	–
Loans to and receivables from other customers				
Specific allowance for impairment (Note 30.2.1)	**1,083,825**	724,402	**1,083,825**	724,402
Collective allowance for impairment (Note 30.2.2)	**(97,897)**	405,973	**(97,897)**	405,973
Other impairment charges				
- Investment in debt securities (Note 31.1.2)	**234**	–	**234**	–
- Investment in other equity securities	**–**	12,915	**–**	12,915
- Investment in subsidiaries (Note 33.1)	**–**	9,896	**–**	–
- Loan commitments (Note 55.1.1)	**23,196**	–	**23,196**	–
- Other debt	**41,503**	17,748	**41,503**	21,597
Write-offs – Loans to and receivables from other customers	**281**	5,479	**281**	5,479
	1,056,230	1,176,413	**1,056,230**	1,170,366

16.1 Impairment charges

For the year ended 31 December	BANK/GROUP 2018 LKR 000
Financial assets at amortised cost-Loans and receivables from Banks (Note 29.2)	
Stage 1	5,088
Financial assets at amortised cost-Loans to and receivables from other customers (Note 30.2.3)	
Stage 1	(12,651)
Stage 2	10,489
Stage 3	988,090
Financial assets at amortised cost-debt instruments (Note 31.1.2)	
Stage 1	234
Contingent liabilities and commitments (Note 55.1.1)	
Stage 1	3,489
Stage 2	19,707
Other debt	41,503
Loans write-off	281
	1,056,230

17 Personnel expenses

Accounting Policy

Employee benefits

Defined Benefit Plans (DBPs)

A defined benefit plan is a post-employment benefit plan other than a Defined Contribution Plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

Pension liability arising from defined benefit obligations

Description of the plan and employee groups covered

The Bank established a trust fund in May 1989, for payment of pension which operates the pension scheme approved by the Commissioner General of Inland Revenue. The fund of the scheme is managed by trustees appointed by the Bank and is separate from the Bank. The scheme provides for payment of pension to retirees, spouse and minor children of deceased retirees based on pre-retirement salary. All members of the permanent staff who joined prior to 1 May 2004 are covered by this funded pension scheme subject to fulfilment of eligibility conditions prescribed by the Bank.

The scheme was amended on 31 August 1998 and the amended plan will apply to all members of the permanent staff who joined the Bank on or after this date and prior to 1 May 2004. The amendment reduced the scope of the benefit in the interest of long-term sustainability of the pension plan as advised by the independent actuary.

The defined benefit pension plan does not permit any post-retirement increases in pension nor any other benefit (e.g. medical expenses reimbursement).

Funding arrangement

The Bank's contributions to the trust fund are made annually based on the recommendation of an independent actuary. The employees make no contributions to qualify for the basic pension, which is therefore a non-contributory benefit to the employees.

Eligible employees who desire to provide for the payment of pension to spouse and minor children, who survive them are however, required to contribute monthly, an amount based on a percentage of gross emoluments, excluding bonus, if they joined the Bank on or after 31 August 1998 and prior to 1 May 2004.

Recognition of actuarial gains and losses

The net actuarial gains or losses arising in a financial year is due to increases or decreases in either the present value of the promised pension benefit obligation or the fair value of pension assets.

The causes for such gains or losses include changes in the discount rate, differences between the actual return and the expected return on pension assets and changes in the estimates of actual employee turnover, mortality rates and increases in salary.

The Bank recognises the total actuarial gains and losses that arise in calculating the Bank's obligation in respect of the plan in other comprehensive income and the expense under personnel expenses in the income statement during the period in which it occurs.

Recognition of past service cost

Past service cost arises when a defined benefit plan is introduced for the first time or subsequent changes are made to the benefits payable under an existing defined benefit plan. Bank will recognise past service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits are already vested following the introduction of or changes to a defined benefit plan, the Bank will recognise past service cost immediately.

Provision for end of service gratuity liability under a defined benefit plan

Description of the plan and employee groups covered

The Bank provides for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 as amended for all employees who do not qualify under the pension scheme. Therefore, this applies to employees recruited to the permanent cadre on or after 1 May 2004 on tenured or fixed term contract employment in the Bank. The subsidiary companies, which do not have a non-contributory pension scheme provide for the gratuity payable under the Payment of Gratuity Act No. 12 of 1983 for all employees. The promised benefit is half a month pre-termination salary for each completed year of service, provided a minimum qualifying period of five years is served prior to termination of employment.

The Bank however, recognises the liability by way of a provision for all employees in tenured employment from the date they joined the permanent cadre, while fixed term employees liability is recognised only if the fixed term contract of service provides for unbroken service of five years or more either singly or together with consecutive contracts.

Funding arrangement

The Bank and the subsidiaries adopt a pay-as-you-go method whereby the employer makes a lump-sum payment only on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Recognition of actuarial gains and losses

The Bank recognises the total actuarial gains and losses in the other comprehensive income during the period in which it occurs.

Recognition of past service cost

Since end of service gratuity defined benefit is a statutory benefit, the recognition of past service cost will arise only if the Payment of Gratuity Act No. 12 of 1983 is amended in future to increase the promised benefit on termination of employment. In such event, the Bank will adopt the accounting policy currently used for defined benefit pension plan.

Defined contribution plans

This provides for a lump-sum payment on termination of employment by resignation, retirement at the age of 55 years or death while in service.

Lump-sum payment is by an outside agency to which contributions are made.

All employees of the Bank are members of the Mercantile Service Provident Society and the Employees' Trust Fund Board to which the Bank contributes 15% and 3% respectively of such employee's consolidated salary.

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Salaries and other benefits	**2,953,203**	2,744,906	**3,076,879**	2,855,037
Provision for staff retirement benefits (Note 17.1)	**455,109**	396,126	**479,101**	422,279
	3,408,312	3,141,032	**3,555,980**	3,277,316

For the year ended 31 December	BANK 2018 LKR 000	BANK 2017 LKR 000	GROUP 2018 LKR 000	GROUP 2017 LKR 000

17.1 Provision for staff retirement benefits

17.1.1 Amount recognised as expense

17.1.1.1 Funded pension liability

Current service cost	**51,282**	60,496	**51,282**	60,496
Interest on obligation	**237,225**	228,094	**237,225**	228,094
Expected return on pension assets	**(228,190)**	(233,917)	**(228,190)**	(233,917)
	60,317	54,673	**60,317**	54,673

17.1.1.2 Unfunded pension liability

Interest on obligation	**5,736**	5,794	**5,736**	5,794
	5,736	5,794	**5,736**	5,794

17.1.1.3 Unfunded end of service gratuity liability

Current service cost	**41,274**	35,041	**45,610**	41,507
Interest on obligation	**26,943**	22,096	**28,628**	23,877
	68,217	57,137	**74,238**	65,384
Total defined benefit plans	**134,270**	117,604	**140,291**	125,851

17.1.1.4 Defined contribution plan

Employer's contribution to Employees' Provident Fund	**267,366**	232,102	**281,271**	245,952
Employer's contribution to Employees' Trust Fund Board	**53,473**	46,420	**57,539**	50,476
Total defined contribution plans	**320,839**	278,522	**338,810**	296,428
Total expense recognised in the income statement	**455,109**	396,126	**479,101**	422,279

18 Other expenses →

For the year ended 31 December	BANK 2018 LKR 000	BANK 2017 LKR 000	GROUP 2018 LKR 000	GROUP 2017 LKR 000
Directors' remuneration	**17,835**	17,241	**18,135**	18,117
Auditors' remuneration				
Audit fees and expenses	**5,503**	5,207	**6,366**	5,975
Audit related fees and expenses	**1,494**	1,706	**1,494**	1,889
Fees for non-audit services	**390**	4,750	**390**	4,750
Expenses on litigation	**13,189**	4,728	**13,189**	4,728
Premises, equipment, and establishment expenses	**1,499,452**	1,285,640	**1,522,968**	1,309,156
Other overhead expenses	**1,264,035**	1,040,730	**1,244,232**	1,021,343
	2,801,898	2,360,002	**2,806,774**	2,365,958

Directors emolument include fees paid to Non-Executive Directors. Remuneration paid to Executive Directors are included under salaries and other benefits in Note 17.

19 Value Added Tax, Nation Building Tax and Debt Repayment Levy on financial services →

Accounting Policy →

Value Added Tax on financial services (VAT)

VAT on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto.

The value base for computation of VAT is the operating profit before Value Added Tax and Nation Building Tax on Financial Services adjusted for emoluments of employees and depreciation computed as per prescribed rates.

Nation Building Tax on Financial Services (NBT)

NBT on financial services is calculated in accordance with Nation Building Tax Act No. 09 of 2009 and subsequent amendments thereto. NBT is chargeable on the same base used for calculation of VAT on financial services.

Debt Repayment Levy (DRL) on Financial Services

With effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services through an amendment to the Finance Act No. 35 of 2018. DRL is chargeable on the same base used for calculation of VAT on financial services before deducting the VAT and NBT on financial services. The levy will be charged up to 31 December 2021.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
19.1 Value Added Tax on financial services				
Value Added Tax on financial services				
– Current year	**1,100,392**	1,286,661	**1,100,392**	1,286,661
– Over provision in respect of previous year	**(590)**	–	**(590)**	–
	1,099,802	1,286,661	**1,099,802**	1,286,661
19.2 Nation Building Tax on financial services				
Nation Building Tax on financial services – Current year	**146,719**	171,554	**146,719**	171,554
– Under provision in respect of previous year	**–**	534	**–**	534
	146,719	172,088	**146,719**	172,088
19.3 Debt Repayment Levy				
Debt Repayment Levy – Current year	**212,549**	–	**212,549**	–
	1,459,070	1,458,749	**1,459,070**	1,458,749

20 Income tax expense →

Accounting Policy →

Income tax expense comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current taxation

Current tax comprises the expected tax payable on the taxable income for the year and any adjustment to the tax payable or receivable in respect of previous years.

The amount of current tax payable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for *financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:*

- *temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;*
- *temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and*
- *taxable temporary differences arising on the initial recognition of goodwill.*

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available, against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available, against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted as at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects as at the reporting date to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Withholding tax on dividend distributed by subsidiaries, associate company and joint venture company

Dividend distributed out of the taxable profit of the subsidiaries, associate company and joint venture company suffers a 14% deduction (before 1 April 2018 – 10%) at source and is not available for set off against the tax liability of the Bank. Thus the withholding tax deducted at source is added to the tax expense of the subsidiary companies, the associate company and joint venture company in the Group financial statements as a consolidation adjustment.

	BANK		GROUP	
For the year ended 31 December	**2018 LKR 000**	2017 LKR 000	**2018 LKR 000**	2017 LKR 000
20.1 Composition				
Current tax	**1,877,096**	1,321,584	**1,964,993**	1,388,734
Over provision in previous years	**(101,486)**	(20,655)	**(101,571)**	(20,627)
	1,775,610	1,300,929	**1,863,422**	1,368,107
Deferred tax – origination and reversal of temporary differences (Note 42)	**(311,128)**	76,420	**(257,246)**	89,546
	1,464,482	1,377,349	**1,606,176**	1,457,653

20.1.1 Reconciliation of effective tax rate with income tax rate

For the year ended 31 December	BANK				GROUP			
	2018		2017		**2018**		2017	
	%	**LKR 000**	%	LKR 000	**%**	**LKR 000**	%	LKR 000
Tax using 28% tax rate on profit before tax (PBT)	**28.00**	**1,185,145**	28.00	1,621,847	**28.00**	**1,309,393**	28.00	1,648,943
Adjustment in respect of current income tax of prior periods	**(2.40)**	**(101,486)**	(0.35)	(20,665)	**(2.16)**	**(101,571)**	(0.34)	(20,627)
Non-deductible expenses	**21.05**	**891,027**	15.25	883,454	**19.27**	**900,767**	15.13	890,726
Allowable deductions	**(8.71)**	**(368,834)**	(5.01)	(290,324)	**(7.94)**	**(371,192)**	(4.97)	(292,919)
Dividend income	**(5.00)**	**(211,753)**	(3.66)	(212,156)	**(4.53)**	**(211,753)**	(3.60)	(212,156)
Tax incentives/adjustments	**5.12**	**216,555**	(10.26)	(594,350)	**4.60**	**215,166**	(10.16)	(598,048)
Taxable timing difference from capital allowances on assets	**3.90**	**164,956**	(1.50)	(86,877)	**3.57**	**164,956**	(1.48)	(86,939)
Tax losses from prior year	**–**	**–**	–	–	**(0.17)**	**(7,936)**	(0.01)	(470)
Taxed at different rates	**–**	**–**	–	–	**0.06**	**2,902**	–	–
Adjustments	**–**	**–**	–	–	**(0.81)**	**(37,310)**	0.67	39,597
Current tax expense	**41.96**	**1,775,610**	22.47	1,300,929	**39.89**	**1,863,422**	23.24	1,368,107

The Bank/Group has applied the provisions of Inland Revenue Act No. 10 of 2006 and amendments there to for the three months ended 31 March 2018 and the provisions of Inland Revenue Act No. 24 of 2017 for the nine months ended 31 December 2018.

21 Basic earnings per ordinary share →

Basic earnings per share of the Bank has been calculated by dividing the profit after income tax by the weighted average number of shares in issue during the financial year.

Basic group earnings per share has been calculated by dividing the profit after income tax attributable to the equity holders of the Bank by the weighted average number of shares in issue during the financial year.

For the year ended 31 December	BANK		GROUP	
	2018	2017	**2018**	2017
Profit attributable to equity holders of the Bank (LKR 000)	**2,768,179**	4,414,964	**3,011,018**	4,362,407
Number of ordinary shares (Note 51)	**265,097,688**	265,097,688	**265,097,688**	265,097,688
Basic earnings per ordinary share – LKR	**10.44**	16.65	**11.36**	16.46

22 Dividend per share →

For the year ended 31 December	BANK		GROUP	
	2018	2017	**2018**	2017
Dividend per share (LKR)	**3.50**	5.00	**3.50**	5.00

The Board of Directors of the Bank has approved the payment of a first and final dividend of LKR 3.50 per share for the year ended 31 December 2018.

23 Analysis of Financial Instrument by Measurement Basis →

The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

As at 31 December 2018	Fair value through profit or loss LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Total LKR 000
23.1 Bank				
Financial assets				
Cash and cash equivalents	–	–	5,039,629	5,039,629
Balances with Central Bank of Sri Lanka	–	–	11,841,814	11,841,814
Placements with banks	–	–	425,087	425,087
Derivative assets held-for-risk management	3,414,549	–	–	3,414,549
Financial assets measured at fair value through profit or loss	6,078,862	–	–	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	–	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	–	–	249,733,718	249,733,718
Financial investments	–	55,313,553	22,874,088	78,187,641
Due from subsidiaries	–	–	9,505	9,505
Other assets	–	–	3,431,061	3,431,061
Total	9,493,411	55,313,553	306,209,782	371,016,746
Financial liabilities				
Due to Banks	–	–	9,446,464	9,446,464
Derivative liabilities held-for-risk management	121,373	–	–	121,373
Financial liabilities at amortised cost – Due to depositors	–	–	242,237,596	242,237,596
Financial liabilities at amortised cost – Due to other borrowers	–	–	47,413,727	47,413,727
Debt securities issued	–	–	8,898,441	8,898,441
Other liabilities	–	–	4,211,304	4,211,304
Subordinated term debt	–	–	16,855,352	16,855,352
Total	121,373	–	329,062,884	329,184,257

As at 31 December 2017	Fair value through profit or loss LKR 000	Fair value held for trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held to maturity LKR 000	Total LKR 000
23.2 Bank						
Financial assets						
Cash and cash equivalents	–	–	–	4,106,225	–	4,106,225
Balances with Central Bank of Sri Lanka	–	–	–	10,557,688	–	10,557,688
Placement with banks	–	–	–	6,691,381	–	6,691,381
Derivative assets held-for-risk management	66,440	–	–	–	–	66,440
Other financial asset held for trading	–	310,922	–	–	–	310,922
Loans to and receivables from banks	–	–	–	10,984,266	–	10,984,266
Loans to and receivables from other customers	–	–	–	213,675,866	–	213,675,866
Financial investments	–	–	56,866,054	–	23,507,632	80,373,686
Due from subsidiaries	–	–	–	12,083	–	12,083
Government grant receivable	642,583	–	–	–	–	642,583
Other assets	–	–	–	2,775,742	–	2,775,742
Total	709,023	310,922	56,866,054	248,803,251	23,507,632	330,196,882
Financial liabilities						
Due to banks	–	–	–	9,640,735	–	9,640,735
Derivative liabilities held-for-risk management	367,435	–	–	–	–	367,435
Due to other customers	–	–	–	193,307,534	–	193,307,534
Other borrowings	–	–	–	41,319,591	–	41,319,591
Debt securities issued	–	–	–	24,443,767	–	24,443,767
Other liabilities	–	–	–	4,078,984	–	4,078,984
Subordinated term debt	–	–	–	9,202,870	–	9,202,870
Total	367,435	–	–	281,993,481	–	282,360,916

As at 31 December 2018	Fair value through profit or loss LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Total LKR 000

23.3 Group

Financial assets				
Cash and cash equivalents	–	–	5,049,823	5,049,823
Balances with Central Bank of Sri Lanka	–	–	11,841,814	11,841,814
Placements with banks	–	–	439,727	439,727
Derivative assets held-for-risk management	3,414,549	–	–	3,414,549
Financial assets measured at fair value through profit or loss	6,078,862	–	–	6,078,862
Financial assets at amortised cost – Loans to and receivables from banks	–	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	–	–	249,733,718	249,733,718
Financial investments	–	55,313,553	22,874,088	78,187,641
Other assets	–	–	3,478,566	3,478,566
Total	9,493,411	55,313,553	306,272,616	371,079,580
Financial liabilities				
Due to Banks	–	–	9,446,464	9,446,464
Derivative liabilities held-for-risk management	121,373	–	–	121,373
Financial liabilities at amortised cost – Due to depositors	–	–	241,914,870	241,914,870
Financial liabilities at amortised cost – Due to other borrowers	–	–	47,388,679	47,388,679
Debt securities issued	–	–	8,898,441	8,898,441
Other liabilities	–	–	4,379,370	4,379,370
Subordinated term debt	–	–	16,855,352	16,855,352
Total	121,373	–	328,883,176	329,004,549

As at 31 December 2017	Fair value through profit or loss LKR 000	Fair value held for trading LKR 000	Fair value through other comprehensive income LKR 000	Amortised cost LKR 000	Held to maturity LKR 000	Total LKR 000

23.4 Group

Financial assets						
Cash and cash equivalents	–	–	–	4,120,230	–	4,120,230
Balances with Central Bank of Sri Lanka	–	–	–	10,557,688	–	10,557,688
Placements with banks	–	–	–	6,712,131	–	6,712,131
Derivative assets held-for-risk management	66,440	–	–	–	–	66,440
Other financial assets held-for-trading	–	310,922	–	–	–	310,922
Loans to and receivables from banks	–	–	–	10,984,266	–	10,984,266
Loans to and receivables from other customers	–	–	–	213,675,866	–	213,675,866
Financial investments	–	–	56,866,054	–	23,507,632	80,373,686
Government grant receivable	642,583	–	–	–	–	642,583
Other assets	–	–	–	2,804,798	–	2,804,798
	709,023	310,922	56,866,054	248,854,979	23,507,632	330,248,610
Financial liabilities						
Due to banks	–	–	–	9,640,735	–	9,640,735
Derivative liabilities held-for-risk management	367,435	–	–	–	–	367,435
Due to other customers	–	–	–	192,920,147	–	192,920,147
Other borrowing	–	–	–	41,290,874	–	41,290,874
Debt securities issued	–	–	–	24,443,767	–	24,443,767
Other liabilities	–	–	–	4,195,940	–	4,195,940
Subordinated term debt	–	–	–	9,202,870	–	9,202,870
	367,435	–	–	281,694,333	–	282,061,768

24 Cash and cash equivalents →

Accounting Policy →

For the purpose of the Statement of Cash Flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with three months or less than three months' maturity from the date of acquisition.

Cash and cash equivalents include cash and short-term Treasury Bills with maximum three months' maturity from date of acquisition.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Cash in hand	**3,856,512**	3,603,883	**3,870,517**	3,617,888
Balances with banks	**1,183,117**	502,342	**1,179,306**	502,342
	5,039,629	4,106,225	**5,049,823**	4,120,230

25 Balances with Central Bank of Sri Lanka →

Accounting Policy →

Balances with central bank are carried at amortised cost in the Statement of Financial Position.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Statutory balances with Central Bank of Sri Lanka	**11,841,814**	10,557,688	**11,841,814**	10,557,688

As required by the provisions of Section 93 of Monetary Law Act, a minimum cash balance is maintained with the Central Bank of Sri Lanka, The minimum cash reserve requirement on rupee deposit liabilities is prescribed as a percentage of rupee deposit liabilities. The percentage is varied from time to time. Applicable minimum rate was 6.00% with effect from 16 November 2018 (minimum rate was 7.5 % up to 16 November 2018). Central Bank introduced average 100% margin requirements against letters of credit for importation of motor vehicles and non-essential consumer goods, with effect from 29 September 2018. There are no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit and foreign currency deposit liabilities in the Domestic Banking Unit.

26 Placements with banks →

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Central Bank of Sri Lanka	**425,087**	100,060	**425,087**	100,060
Nation Trust Bank PLC	–	1,422,089	–	1,422,089
Seylan Bank PLC	–	1,000,670	–	1,000,670
Cargills Bank Ltd	–	250,168	–	250,168
Emirates NBD PJSC	–	537,696	–	537,696
Muslim Commercial Bank	–	921,808	–	921,808
Union Bank of Colombo PLC	–	2,458,890	–	2,458,890
Commercial Bank of Ceylon PLC	–	–	**14,640**	20,750
	425,087	6,691,381	**439,727**	6,712,131

27 Derivatives held-for-risk management →

Accounting Policy →

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the Statement of Financial Position.

Up to 1 January 2018 the Bank has not designated any derivative held-for-risk management purposes as a qualifying hedge relationship and therefore the Bank has not adopted hedge accounting. However from 1 January 2018 the Bank has applied hedge accounting principles of SLFRS 9 on financial instruments.

The Group designates certain derivatives held-for-risk management as well as certain non derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 – 125%. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in the hedging reserve is reclassified from OCI to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the income statement and OCI. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a Central Counterparty (CCP) by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

The Bank uses cross currency swaps (CCS) to hedge the interest rate risk and exchange rate risk arising from a floating rate borrowing denominated in foreign currencies. The hedging relationship is designated as cash flow hedge since the Bank is expecting to hedge the variability arise by the interest rate risk and exchange rate risk, where the USD borrowing can be identified as the hedged item, the CCS can be identified as the hedge instrument and interest rate risk and exchange rate risk can be identified as the hedged risk.

Derivatives are classified as assets, when their fair value is positive or as liabilities, when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset, if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The following table describes the fair values of derivatives held-for-risk management purposes by type of instrument:

27.1 Assets

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Instrument type				
Interest rate				
Interest rate swap	**7,165**	–	**7,165**	–
Interest rate and foreign exchange				
Cross currency swap	**892,967**	–	**892,967**	–
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	**2,472,889**	65,552	**2,472,889**	65,552
– Other	**41,528**	888	**41,528**	888
	3,414,549	66,440	**3,414,549**	66,440

27.2 Liabilities

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Interest rate				
Interest rate swap	–	6,028	–	6,028
Foreign exchange				
Forward foreign exchange contracts – Currency swaps	**36,940**	355,580	**36,940**	355,580
– Other	**84,433**	5,827	**84,433**	5,827
	121,373	367,435	**121,373**	367,435

28 Financial assets measured at fair value through profit or loss/ financial assets held for trading →

Accounting Policy →

Policy applicable from 1 January 2018

Financial assets measured at FVTPL are measured initially at fair value and subsequently recorded in the statement of financial position at fair value. Changes in fair value are recognised in income statement.

Policy applicable before 1 January 2018

Financial assets are classified as held-for-trading if:

- *they are acquired principally for the purpose of selling or repurchasing in the near term; or*
- *they hold as a part of a portfolio that is managed together for short-term profit or position taking;*

Financial assets held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss. Interest and dividend income are recorded in "Interest Income" and "Net Gains/(Losses) form Trading" respectively in the Income Statement, according to the terms of the contract, or when the right to receive the payment has been established.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Government of Sri Lanka Treasury Bonds (Note 28.4)	–	279,094	–	279,094
Equity securities				
Quoted (Note 28.1)	**5,386,889**	31,828	**5,386,889**	31,828
Quoted units in unit trust (Note 28.2)	**169,025**	–	**169,025**	–
Unquoted units in unit trust (Note 28.3)	**522,948**	–	**522,948**	–
	6,078,862	310,922	**6,078,862**	310,922

28.1 Quoted ordinary shares – Bank/Group

As at	31.12.2018			31.12.2017		
	Number of ordinary shares	**Cost LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost LKR 000	Fair value LKR 000
Commercial Bank of Ceylon PLC – voting	**46,965,028**	**1,854,812**	**5,386,889**	234,032	26,586	31,828
		1,854,812	**5,386,889**		26,586	31,828

28.2 Quoted units in unit trust Bank/Group

As at	31.12.2018			31.12.2017		
	Number of units	**Cost LKR 000**	**Fair value LKR 000**	Number of units	Cost LKR 000	Fair value LKR 000
NAMAL Acuity Value Fund	**2,112,810**	**106,070**	**169,025**	–	–	–
		106,070	**169,025**	–	–	–

28.3 Unquoted units in unit trust Bank/Group

As at	31.12.2018			31.12.2017		
	Number of units	**Cost LKR 000**	**Fair value LKR 000**	Number of units	Cost LKR 000	Fair value LKR 000
NAMAL Growth Fund	**2,125,766**	**251,539**	**241,215**	–	–	–
NAMAL Income Fund	**1,981,068**	**20,226**	**29,066**	–	–	–
National Equity Fund	**250,000**	**2,657**	**6,736**	–	–	–
Guardian Acuity Equity Fund	**9,052,505**	**150,000**	**145,932**	–	–	–
JB Vantage Value Equity Fund	**5,224,660**	**100,000**	**99,999**	–	–	–
		524,422	**522,948**	–	–	–

28.4 By collateralisation

	BANK		GROUP	
	2018 LKR 000	**2017 LKR 000**	**2018 LKR 000**	**2017 LKR 000**
Pledged as collateral	–	–	–	–
Unencumbered	–	279,094	–	279,094
	–	279,094	–	279,094

29 Financial assets at amortised cost – Loans to and receivables from banks →

Accounting Policy →

Loans and receivables from Bank include amount due from Banks, investment by the Bank in any bonds which is not listed in the Colombo Stock Exchange or in any recognised market. The amount includes the principal amount and interest due and/or accrued on the date of the Statement of Financial Position.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Gross loans and receivables	**12,898,331**	10,984,266	**12,898,331**	10,984,266
Accumulated impairment under stage 1 (Note 29.2)	**(43,451)**	–	**(43,451)**	–
Net loans and receivables	**12,854,880**	10,984,266	**12,854,880**	10,984,266

29.1 Analysis

29.1.1 By product

Refinanced loans-Plantation development project	–	27,977	–	27,977
Sri Lanka development bonds	**12,898,331**	10,956,289	**12,898,331**	10,956,289
Gross loans and receivables	**12,898,331**	10,984,266	**12,898,331**	10,984,266

29.1.2 By currency

Sri Lankan Rupee	–	27,977	–	27,977
United States Dollar	**12,898,331**	10,956,289	**12,898,331**	10,956,289
Gross loans and receivables	**12,898,331**	10,984,266	**12,898,331**	10,984,266

As at	BANK/GROUP 31.12.2018 LKR 000
29.2 Movement in impairment during the year	
Stage 1	
Balance at beginning	**38,363**
Charge to income statement	**5,088**
Balance on 31 December	**43,451**

30 Financial assets at amortised cost – Loans to and receivables from other customers →

Accounting Policy →

Loans to and receivables from other customers include loans and advances and lease receivables of the Group.

Principal amount of loans and advances (for example, over drawn balances in current account) are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations, or the loans are written-off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less any reduction for impairment or uncollectibility.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to the ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Loans and receivables from other customers are normally written off, either partially or in full, when there is no realistic prospect of recovery and all possible steps have been executed in recovering dues. Where loans are secured, this is generally after receipt of any proceeds from the realisation of the security. If the write-off is later recovered, the recovery is credited to "Net other operating income".

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Gross loans and receivables	**261,299,294**	221,309,571	**261,299,294**	221,309,571
Specific allowance for impairment (Note 30.2.1)	**(5,959,266)**	(5,388,754)	**(5,959,266)**	(5,388,754)
Collective allowance for impairment (Note 30.2.2)	**(5,606,310)**	(2,244,951)	**(5,606,310)**	(2,244,951)
Net loans and receivables	**249,733,718**	213,675,866	**249,733,718**	213,675,866

30.1 Analysis

30.1.1 By product

Overdrafts	**40,785,975**	40,204,544	**40,785,975**	40,204,544
Trade finance	**39,942,531**	29,778,452	**39,942,531**	29,778,452
Lease rentals receivable (Note 30.1.1.1)	**18,312,071**	16,493,374	**18,312,071**	16,493,374
Credit cards	**504,613**	276,432	**504,613**	276,432
Pawning	**3,194,318**	2,597,441	**3,194,318**	2,597,441
Staff loans	**1,966,944**	1,544,400	**1,966,944**	1,544,400
Term loans	**155,150,990**	129,086,941	**155,150,990**	129,086,941
Commercial papers and asset back notes	**1,329,352**	1,140,487	**1,329,352**	1,140,487
Preference shares unquoted	**112,500**	187,500	**112,500**	187,500
Gross loans and receivables	**261,299,294**	221,309,571	**261,299,294**	221,309,571

30.1.1.1 Lease rentals receivable

Gross investment in leases:				
Lease rentals receivable				
– within one year	**9,333,666**	8,167,382	**9,333,666**	8,167,382
– one to five years	**13,040,987**	11,774,307	**13,040,987**	11,774,307
	22,374,653	19,941,689	**22,374,653**	19,941,689
Less: Deposit of rentals	**10,411**	12,551	**10,411**	12,551
Unearned income on rentals receivable				
– within one year	**2,045,398**	1,720,165	**2,045,398**	1,720,165
– one to five years	**2,006,773**	1,715,599	**2,006,773**	1,715,599
	18,312,071	16,493,374	**18,312,071**	16,493,374

30.1.2 By currency

Sri Lankan Rupee	**227,858,928**	199,579,777	**227,858,928**	199,579,777
United States Dollar	**32,636,916**	20,885,187	**32,636,916**	20,885,187
Great Britain Pound	**566,915**	511,472	**566,915**	511,472
Australian Dollar	**42,077**	16,099	**42,077**	16,099
Euro	**194,458**	317,036	**194,458**	317,036
Gross loans and receivables	**261,299,294**	221,309,571	**261,299,294**	221,309,571

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

30.1.3 By industry

Agriculture, forestry and fishing	**27,308,657**	23,249,946	**27,308,657**	23,249,946
Manufacturing	**56,123,392**	51,376,632	**56,123,392**	51,376,632
Tourism	**12,805,091**	12,866,278	**12,805,091**	12,866,278
Transportation and storage	**9,407,724**	7,125,366	**9,407,724**	7,125,366
Construction	**30,722,021**	26,391,706	**30,722,021**	26,391,706
Infrastructure development	**22,422,062**	16,712,603	**22,422,062**	16,712,603
Wholesale and retail trade	**48,884,603**	45,756,584	**48,884,603**	45,756,584
Information technology and communication services	**986,397**	1,722,424	**986,397**	1,722,424
Financial services	**13,633,490**	10,090,282	**13,633,490**	10,090,282
Professional, scientific and technical activities	**951,079**	134,552	**951,079**	134,552
Arts, entertainment and recreation	**812,394**	626,832	**812,394**	626,832
Education	**1,456,169**	1,276,834	**1,456,169**	1,276,834
Health care, social services and support services	**3,680,771**	2,685,755	**3,680,771**	2,685,755
Consumption	**24,778,839**	19,687,803	**24,778,839**	19,687,803
Lending to ministry of finance	**298,195**	361,706	**298,195**	361,706
Lending to overseas entities	**7,028,410**	1,244,268	**7,028,410**	1,244,268
Gross loans and receivables	**261,299,294**	221,309,571	**261,299,294**	221,309,571

30.2 Movements in specific and collective allowance for impairment

30.2.1 Specific allowance for impairment

Balance at beginning	**5,388,754**	4,778,752	**5,388,754**	4,778,752
Currently assessed under collective impairment	**(8,927)**	–	**(8,927)**	–
Charge to income statement	**1,083,825**	724,402	**1,083,825**	724,402
Effect of foreign currency movement	**170,927**	21,782	**170,927**	21,782
Write-off of loans and receivables	**(675,313)**	(136,182)	**(675,313)**	(136,182)
Balance on 31 December	**5,959,266**	5,388,754	**5,959,266**	5,388,754

30.2.2 Collective allowance for impairment

Balance at beginning	**2,244,951**	1,890,798	**2,244,951**	1,890,798
Impact of adoption of SLFRS 9 as of 1 January 2018	**3,486,390**	–	**3,486,390**	–
Previously assessed under individual impairment	**8,927**	–	**8,927**	–
Adjusted balance at beginning (SLFRS 9)	**5,740,268**	–	**5,740,268**	–
(Reversal)/charge to income statement	**(97,897)**	405,973	**(97,897)**	405,973
Effect of foreign currency movement	**(4,233)**	382	**(4,233)**	382
Transfer to dues on terminated leases*	**(1,669)**	(4,671)	**(1,669)**	(4,671)
Write-off of loans and receivables	**(30,159)**	(47,531)	**(30,159)**	(47,531)
Balance on 31 December	**5,606,310**	2,244,951	**5,606,310**	2,244,951
Total	**11,565,576**	7,633,705	**11,565,576**	7,633,705

** Included in debtors in other assets Note 43.*

30.2.3 Movements in impairment during the year

As at	BANK/GROUP 31.12.2018 LKR 000
Stage 1	
Balance at beginning	805,471
Write back to income statement	(12,651)
Write-off during the year	(6,659)
Balance on 31 December	786,161
Stage 2	
Balance at beginning	2,347,630
Charge to income statement	10,489
Write-off during the year	(2,161)
Balance on 31 December	2,355,958
Stage 3	
Balance at beginning	7,966,994
Charge to income statement	988,090
Effect of foreign currency movement	166,694
Write-off during the year	(696,652)
Other movements	(1,669)
Balance on 31 December	8,423,457
Total impairment	**11,565,576**

31 Financial assets at amortised cost – Debt and other instruments/ financial assets held to maturity →

Accounting Policy →

Policy applicable from 1 January 2018

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- *The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and*
- *The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.*

Policy applicable before 1 January 2018

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Bank positively intends, and is able, to hold to maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in there classification of all investment securities as available-for-sale for the current and the subsequent two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- *Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;*
- *Sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and*
- *Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.*

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Quoted debentures (Note 31.1)	**4,390,285**	5,131,404	**4,390,285**	5,131,404
Sri Lanka Government Securities (Note 31.2)				
Treasury Bills	**236,135**	941,938	**236,135**	941,938
Treasury Bonds	**18,247,668**	17,434,290	**18,247,668**	17,434,290
Total	**22,874,088**	23,507,632	**22,874,088**	23,507,632

31.1 Quoted debentures

Quoted debentures (Note 31.1.1)	**4,392,248**	5,131,404	**4,392,248**	5,131,404
Accumulated impairment under stage 1 (Note 31.1.3)	**(1,963)**	–	**(1,963)**	–
	4,390,285	5,131,404	**4,390,285**	5,131,404

31.1.1 Quoted debentures

As at	31.12.2018 Number of Debentures	31.12.2018 Cost of investment LKR 000	31.12.2017 Number of Debentures	31.12.2017 Cost of investment LKR 000
Access Engineering PLC	**2,500,000**	**252,961**	2,500,000	253,031
Alliance Finance Company PLC	**4,221,693**	**461,755**	4,221,693	461,755
Central Finance Company PLC	–	–	1,793,900	191,604
Commercial Credit & Finance PLC	**4,500,000**	**461,911**	4,500,000	461,913
Hemas Holdings PLC	**827,900**	**85,055**	827,900	85,055
Lanka Orix Leasing Company PLC	**3,000,000**	**306,806**	3,000,000	306,806
LB Finance PLC	**1,155,200**	**116,344**	1,155,200	116,344
Lion Brewery (Ceylon) PLC	**1,412,500**	**144,018**	1,440,900	173,420
People’s Leasing and Finance PLC	**12,500,000**	**1,285,295**	13,326,300	1,391,594
Senkadagala Finance PLC	**3,650,000**	**371,981**	3,650,000	371,981
Singer (Sri Lanka) PLC	**2,500,000**	**256,961**	6,441,900	668,738
Siyapatha Finance Ltd	**2,000,000**	**217,800**	2,000,000	217,802
Softlogic Finance PLC	**706,500**	**72,431**	706,500	72,431
Vallibel Finance PLC	**3,500,000**	**358,930**	3,500,000	358,930
Total investments in quoted debentures – Bank/Group		**4,392,248**		5,131,404

31.1.2 By collateralisation

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Pledged as collateral	**973,086**	1,275,436	**973,086**	1,275,436
Unencumbered	**3,417,199**	3,855,968	**3,417,199**	3,855,968
	4,390,285	5,131,404	**4,390,285**	5,131,404

As at	BANK		GROUP	
	31.12.2018 LKR 000	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
31.2 By collateralisation				
31.2.1 Treasury bills				
Pledged as collateral	–	–	–	–
Unencumbered	**236,135**	941,938	**236,135**	941,938
	236,135	941,938	**236,135**	941,938
31.2.2 Treasury bonds				
Pledged as collateral	**4,082,975**	17,434,290	**4,082,975**	17,434,290
Unencumbered	**14,164,693**	–	**14,164,693**	–
	18,247,668	17,434,290	**18,247,668**	17,434,290

As at	**Bank/Group 31.12.2018 LKR 000**
31.1.3 Movement in impairment during the year	
Stage 1	
Balance at beginning	**1,729**
Charge to income statement	**234**
Balance on 31 December	**1,963**

32 Financial assets measured at fair value through other comprehensive income/ financial assets available for sale →

Accounting Policy →

Policy applicable from 1 January 2018

A financial asset is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not designated as FVTPL:

- → *The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and*
- → *The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.*
- → *On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment – by investment basis.*

Policy applicable before 1 January 2018

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or not classified as another category of financial assets. These include Treasury Bills, Bonds, Debt Securities and unquoted and quoted equity securities. They are carried at fair value except for unquoted equity securities whose fair value cannot reliably be measured and therefore carried at cost.

Interest income is recognised in profit or loss, using the effective interest method. Dividend income was recognised in profit or loss when the Bank become entitled to the dividend.

Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, where upon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as are classification adjustment.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Government of Sri Lanka Treasury bills (Note 32.7)	**17,851,707**	19,484,244	**17,851,707**	19,484,244
Government of Sri Lanka Treasury bonds (Note 32.8)	**26,180,697**	18,261,795	**26,180,697**	18,261,795
Sri Lanka sovereign bonds – unencumbered	**876,579**	–	**876,579**	–
	44,908,983	37,746,039	**44,908,983**	37,746,039
Equity securities				
Quoted (Note 32.1)	**10,215,281**	18,195,008	**10,215,281**	18,195,008
Unquoted (Note 32.2)	**188,789**	85,555	**188,789**	85,555
Preference shares (Note 32.3)	**500**	500	**500**	500
Quoted units in Unit Trust (Notes 32.4)	–	194,590	–	194,590
Unquoted units in Unit Trust (Notes 32.5)	–	644,362	–	644,362
	10,404,570	19,120,015	**10,404,570**	19,120,015
Total	**55,313,553**	56,866,054	**55,313,553**	56,866,054

32.1 Quoted ordinary Shares

As at	31.12.2018 Number of ordinary shares	31.12.2018 Cost* LKR 000	31.12.2018 Fair value LKR 000	31.12.2017 Number of ordinary shares	31.12.2017 Cost* LKR 000	31.12.2017 Fair value LKR 000
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC – voting	**81,250,621**	**3,208,869**	**9,319,446**	126,696,192	4,839,953	17,230,682
Commercial Bank of Ceylon PLC – non-voting	**262,182**	**21,254**	**25,405**	257,805	20,790	27,070
National Development Bank PLC	**2,864,868**	**449,041**	**306,542**	2,076,280	364,017	283,412
		3,679,164	**9,651,393**		5,224,760	17,541,164
Beverages, Food and Tobacco						
Ceylon Tobacco Company PLC	–	–	–	34,532	1,949	33,154
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC – voting	**247,900**	**14,131**	**9,792**	247,900	14,131	16,535
Chemical Industries (Colombo) PLC – non-voting	**389,400**	**15,577**	**11,682**	389,400	15,577	20,249
		29,708	**21,474**		29,708	36,784
Construction and Engineering						
Access Engineering PLC	**923,000**	**16,920**	**13,014**	473,000	9,737	11,163
Colombo Dockyard PLC	**160,000**	**12,160**	**8,880**	160,000	12,160	14,048
		29,080	**21,894**		21,897	25,211
Diversified Holdings						
Carson Cumberbatch PLC	**46,967**	**7,745**	**8,078**	46,967	7,745	8,454
Hayleys PLC	**7,333**	**2,225**	**1,371**	7,333	2,225	1,760
Hemas Holdings PLC	**894,777**	**57,189**	**79,635**	496,560	16,297	62,567
John Keells Holdings PLC	**672,758**	**86,368**	**106,969**	219,907	18,362	32,700
Melstacorp PLC	**2,069,940**	**90,053**	**104,118**	1,669,940	69,829	99,361
Richard Pieris & Co. PLC	**1,612,956**	**15,563**	**16,936**	612,956	5,047	7,907
		259,143	**317,107**		119,505	212,749

As at	31.12.2018			31.12.2017		
	Number of ordinary shares	**Cost* LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000
Healthcare						
Ceylon Hospitals PLC – Voting	–	–	–	100,000	2,306	8,300
Ceylon Hospitals PLC – Non-voting	–	–	–	240,000	4,167	15,672
		–	–		6,473	23,972
Hotels and Travels						
Dolphin Hotels PLC	**100,000**	**964**	**2,480**	100,000	964	2,900
Investment Trusts						
Ceylon Guardian Investment Trust PLC	**152,308**	**5,918**	**10,585**	152,308	5,918	13,251
Ceylon Investment PLC	**288,309**	**9,428**	**11,244**	288,309	9,428	12,887
		15,346	**21,829**		15,346	26,138
Telecommunications						
Dialog Axiata PLC	**2,550,000**	**24,602**	**25,755**	2,050,000	18,860	26,855
Manufacturing						
ACL Cables PLC	**40,000**	**2,278**	**1,480**	40,000	2,278	1,688
Ceylon Grain Elevators PLC	**148,997**	**9,197**	**8,865**	148,997	9,197	9,834
Chevron Lubricants Lanka PLC	**761,628**	**27,907**	**55,218**	761,628	27,907	90,634
Kelani Tyres PLC	**75,000**	**4,538**	**2,700**	75,000	4,538	3,330
Piramal Glass Ceylon PLC	**5,000,000**	**14,024**	**19,000**	5,000,000	14,024	29,000
Royal Ceramics Lanka PLC	**139,800**	**16,996**	**10,443**	139,800	16,996	16,007
Teejay Lanka PLC	**75,000**	**3,141**	**2,438**	75,000	3,141	2,550
Tokyo Cement Company (Lanka) PLC – voting	**120,000**	**5,734**	**3,000**	120,000	5,734	7,920
Tokyo Cement Company (Lanka) PLC – non-voting	**1,472,515**	**25,759**	**34,605**	1,472,515	25,759	86,878
		109,574	**137,749**		109,574	247,841
Power and Energy						
Vallibel Power Erathna PLC	**2,400,000**	**6,400**	**15,600**	2,400,000	6,400	18,240
Total quoted ordinary shares – Bank		**4,153,981**	**10,215,281**		5,555,436	18,195,008
Commercial Bank of Ceylon PLC – Equity Adjustment	–	**1,454,863**	–	–	2,297,772	–
Total quoted ordinary shares – Group		**5,608,844**	**10,215,281**		7,853,208	18,195,008

Sector classification and fair value per share are based on the list published by Colombo Stock Exchange, as at the reporting date.

** Cost is reduced by write-off of diminution in value other than temporary in respect of investments.*

As at	31.12.2018			31.12.2017		
	Number of ordinary shares	**Cost* LKR 000**	**Fair value LKR 000**	Number of ordinary shares	Cost* LKR 000	Fair value LKR 000
32.2 Unquoted ordinary shares						
Credit Information Bureau of Sri Lanka	**9,184**	**918**	**171,661**	9,184	918	918
Durdans Medical & Surgical Hospital (Pvt) Limited	–	–	–	1,273,469	16,029	16,029
Fitch Ratings Lanka Limited	–	–	–	62,500	625	625
Lanka Clear (Private) Limited	**100,000**	**1,000**	**12,578**	100,000	1,000	1,000
Lanka Financial Services Bureau Limited	**100,000**	**1,000**	**1,165**	100,000	1,000	1,000
Samson Reclaim Rubber Limited	**116,700**	–	–	116,700	–	–
Society for Worldwide Interbank Financial Telecommunication	**6**	**3,385**	**3,385**	6	3,385	3,385
Sun Tan Beach Resorts Limited	**9,059,013**	–	–	9,059,013	62,598	62,598
The Video Team (Private) Limited	**30,000**	–	–	30,000	–	–
Total unquoted ordinary shares – Bank/Group		**6,303**	**188,789**		85,555	85,555

** Cost is reduced by write off of diminution in value other than temporary in respect of investments.*

As at	31.12.2018			31.12.2017		
	Number of preference shares	**Cost LKR 000**	**Fair value* LKR 000**	Number of preference shares	Cost LKR 000	Fair value LKR 000
32.3 Unquoted irredeemable preference shares						
Arpico Finance Company PLC	**50,000**	**500**	**500**	50,000	500	500
Total investments in unquoted irredeemable preference shares – Bank/Group		**500**	**500**		500	500

As at	31.12.2018			31.12.2017		
	Number of units	**Cost LKR 000**	**Fair value* LKR 000**	Number of units	Cost LKR 000	Fair value LKR 000
32.4 Quoted Units in Unit Trust						
NAMAL Acuity Value Fund	–	–	–	2,112,810	106,070	194,590
Total investments in quoted unit – Bank/Group		–	–		106,070	194,590
32.5 Unquoted Units in Unit Trust						
NAMAL Growth Fund	–	–	–	2,125,766	251,539	288,256
NAMAL Income Fund	–	–	–	5,810,424	59,322	80,778
National Equity Fund	–	–	–	250,000	2,657	8,417
Guardian Acuity Equity Fund	–	–	–	9,052,505	150,000	154,486
JB Vantage Value Equity Fund	–	–	–	5,224,660	100,000	112,425
Total investments in unquoted unit trusts – Bank/Group		–	–		563,518	644,362

Unit Trust investments have been reclassified as financial assets measured at fair value thought profit or loss in Note 28.3.

As at	Ordinary Shares Quoted LKR 000	Ordinary Shares Unquoted LKR 000	Preference shares Unquoted LKR 000	Total 31.12.2018 LKR 000	Total 31.12.2017 LKR 000

32.6 Equity securities

32.6.1 Composition*

32.6.1.1 Bank

	Quoted LKR 000	Unquoted LKR 000	Unquoted LKR 000	31.12.2018 LKR 000	31.12.2017 LKR 000
Performing investments	10,215,281	188,789	500	**10,404,570**	18,755,114
Non-performing investments	–	–	–	–	364,901
	10,215,281	188,789	500	**10,404,570**	19,120,015

32.6.1.2 Group

	Quoted LKR 000	Unquoted LKR 000	Unquoted LKR 000	31.12.2018 LKR 000	31.12.2017 LKR 000
Performing investments	10,215,281	188,789	500	**10,404,570**	18,755,114
Non-performing investments	–	–	–	–	364,901
	10,215,281	188,789	500	**10,404,570**	19,120,015

** Disclosure as per the Direction on the prudential norms for classification, valuation and operation of the Bank's investment portfolio.*

As at	BANK		GROUP	
	31.12.2018 LKR 000	31.12.2017 LKR 000	31.12.2018 LKR 000	31.12.2017 LKR 000

32.7 By collateralisation

	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Pledged as collateral	**3,364,984**	5,378,996	**3,364,984**	5,378,996
Unencumbered	**14,486,723**	14,105,248	**14,486,723**	14,105,248
	17,851,707	19,484,244	**17,851,707**	19,484,244

32.8 By collateralisation

	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Pledged as collateral	**2,137,208**	51,060	**2,137,208**	51,060
Unencumbered	**24,043,489**	18,210,735	**24,043,489**	18,210,735
	26,180,697	18,261,795	**26,180,697**	18,261,795

33 Investments in subsidiaries →

Accounting Policy →

Bank's investments in subsidiaries are stated at cost less impairment losses. Reversals of impairment losses are recognised in the income statement, if there has been a change in the estimates used to determine the recoverable amount of the investment.

As at	DFCC Consulting (Pvt) Limited ownership 100% LKR 000	Lanka Industrial Estates Limited ownership 51.16% LKR 000	Synapsys Limited ownership 100% LKR 000	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000
Balance at beginning	5,000	97,036	135,000	**237,036**	172,036
Investment during the year	–	–	–	–	65,000
Less: Allowance for impairment (Note 33.1)	–	–	70,000	**70,000**	70,000
Balance net of impairment	5,000	97,036	65,000	**167,036**	167,036

As at	DFCC Consulting (Pvt) Limited ownership 100% LKR 000	Lanka Industrial Estates Limited ownership 51.16% LKR 000	Synapsys Limited ownership 100% LKR 000	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000

33.1 Movements in impairment allowance

Balance at beginning				70,000	60,104
Charge to income statement				–	9,896
Balance on 31 December				70,000	70,000

Investment in Synapsys Limited is classified as non-performing (no dividend for three consecutive years).

33.2 Non-controlling interest (NCI) in subsidiaries

Accounting Policy →

The Non-controlling Interest are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes to in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

	Percentage of ownership interest held by NCI	Percentage of voting rights held by NCI	Share of total comprehensive income of NCI for the year ended 31 December		NCI as at		Dividends paid to NCI for the year ended 31 December	
	31.12.2018 %	31.12.2017 %	**2018 LKR 000**	2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**2018 LKR 000**	2017 LKR 000
Lanka Industrial Estates Limited	**48.84**	48.84	**59,352**	71,572	**258,224**	276,872	**54,600**	54,600
			59,352	71,572	**258,224**	276,872	**54,600**	54,600

33.3 Summarised financial information of subsidiaries

Lanka Industrial Estates Limited

As at	**31.12.2018 LKR 000**	**31.12.2017 LKR 000**
Assets	**849,394**	782,569
Liabilities	**320,732**	215,730
Equity	**528,662**	566,839

For the year ended 31 December	**2018 LKR 000**	**2017 LKR 000**
Revenue	**353,125**	322,223
Expenses	**120,879**	116,322
Income tax	**111,026**	59,822
Profit after tax	**121,220**	146,079
Other comprehensive income	**293**	459
Total comprehensive income	**121,513**	146,538

34 Investments in associate (unquoted) →

Accounting Policy →

Investment in associate is recognised using the equity method, initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in Bank's share of net assets. Unrealised gains and losses on transactions between Bank and its associates are eliminated to the extent of Bank's interest in the respective associate.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
National Asset Management Limited (Ownership 30%)				
Balance at beginning	**35,270**	35,270	**67,266**	64,873
Share of profit after tax	**–**	–	**2,429**	9,414
Share of other comprehensive (expenses)/income	**–**	–	**(8,588)**	479
Dividend received – Elimination on consolidation	**–**	–	**(30,000)**	(7,500)
Balance on 31 December	**35,270**	35,270	**31,107**	67,266

34.1 Summarised financial information of associate

National Asset Management Limited

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Assets	**112,689**	238,743
Liabilities	**9,050**	14,576
Equity	**103,639**	224,167

For the year ended 31 December	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Revenue	**86,962**	128,102
Profit after tax	**8,096**	31,380
Other comprehensive (expenses)/income	**(28,625)**	1,596
Total comprehensive (expenses)/income	**(20,528)**	32,976

35 Investments in joint venture (unquoted) →

Accounting Policy →

Investments in joint venture is recognised using the equity method, initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in Bank's share of net assets. Unrealised gains and losses on transactions between Bank and its joint ventures are eliminated to the extent of Bank's interest in the respective joint venture.

As at	**31.12.2018 Cost of investment LKR 000**	31.12.2017 Cost of investment LKR 000
35.1 Investments in joint venture – Bank		
Acuity Partners (Pvt) Limited (ownership 50%)	**755,000**	755,000
	755,000	755,000

As at	31.12.2018 LKR 000	31.12.2017 LKR 000

35.2 Investment in joint venture – Group

Share of identifiable asset and liabilities of joint venture as at the beginning of the year	**1,801,399**	1,562,942
Share of unrealised profit on disposal of investments	**(184,688)**	(184,688)
Balance at beginning	**1,616,711**	1,378,254
Adjustment on initial application of SLFRS 9	**15,568**	–
Share of profit, net of tax	**304,789**	175,616
Share of other comprehensive income/(expenses)	**49,498**	(21,416)
Change in holding – through subsidiary of joint venture	**4,109**	117,477
Dividend received during the year	**(33,220)**	(33,220)
Group’s share of net assets	**1,957,455**	1,616,711

35.3 Summarised financial information of joint venture – Acuity Partners (Pvt) Limited

For the year ended 31 December	**2018 LKR 000**	2017 LKR 000
Revenue	**858,296**	808,127
Expenses	**710,453**	654,739
Share of profit of equity accounted investees	**516,783**	447,614
Other gains/losses	**12,734**	14,119
Income tax reversal/expense	**222,463**	(50,241)
Profit after tax	**899,823**	564,880
Other comprehensive income/(expenses)	**272,046**	(69,456)
Total comprehensive income	**1,171,869**	495,424

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Current assets	**7,055,575**	5,241,692
Non-current assets	**10,084,538**	9,299,827
Current liabilities	**9,452,066**	7,688,029
Non-current liabilities	**990,956**	1,025,766

	BANK	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000

36 Due from subsidiaries →

DFCC Consulting (Pvt) Limited	**1,854**	906
Synapsys Limited	**7,651**	11,177
	9,505	12,083

37 Investment property →

Accounting Policy →

Investment property of the Bank/Group is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business. The Bank/Group has chosen the cost model instead of fair value model and therefore investment property is measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the Income Statement.

Depreciation is provided on a straightline basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Cost				
Balance at beginning	–	–	**464,348**	363,329
Acquisition	–	–	**280,371**	165,336
Transferred from property, plant and equipment (Note 38.1)	**9,879**	–	**(79,200)**	(64,317)
Cost as at 31 December	**9,879**	–	**665,519**	464,348
Less: Accumulated depreciation				
Balance at beginning	–	–	**145,695**	131,977
Charge for the year	–	–	**23,265**	13,718
Accumulated depreciation as at 31 December	–	–	**168,960**	145,695
Carrying amount as at 31 December	**9,879**	–	**496,559**	318,653

37.1 Details of investment properties

As at 31 December 2018	Buildings sq.ft	Extent of Land perches*	Cost LKR 000	Accumulated depreciation/ impairment LKR 000	Carrying amount LKR 000	Fair value LKR 000	Date of Valuation
4 A, 4th Cross Lane, Borupana, Ratmalana	–	20.0	2,600	–	2,600	15,000	31.12.2017
259/30, Kandy Road, Bambarakelle, Nuwara-Eliya	–	93.5	7,279	–	7,279	88,800	20.05.2018
Bank	–		9,879	–	9,879	103,800	
Pattiwila Road, Sapugaskanda, Makola	465,150	21,920	655,640	168,960	486,680	5,413,750	31.12.2017
Group			665,519	168,960	496,559	5,517,550	

**1 perch – 25.2929 m^2; 1Sq.ft = 0.0929 m^2*

The fair value of investment property as at 31 December 2018 situated at Pattiwela Road, Sapugaskanda, Makola was based on market valuations carried out on 31 December 2017 by independent qualified valuer Mr K T D Tissera, Fellow Members of Institute of Valuers (Sri Lanka), Chartered Valuer.

The fair value of investment properties situated at Borupana, Ratmalana and Bambarakelle, Nuwara-Eliya valued by independent qualified valuer Mr A A M Fathihu – Former Government Chief Valuer and Mr J S M I B Karunatilaka. Associate Member of the Institute of Valuers of Sri Lanaka.

Rental income from investment property of Group for 2018 – LKR 226 Mn (2017 – LKR 225 Mn)
Operating expenses on investment property of Group for 2018 – LKR 38 Mn (2017 – LKR 29 Mn)

38 Property, plant and equipment →

Accounting Policy →

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

Subsequent costs

Subsequent expenditure is capitalised only when its probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance costs are expensed as incurred.

Capital work-in-progress

There are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost. Capital work-in-progress would be transferred to the relevant asset when it is available for use i.e. When it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Capital work-in-progress is stated at cost less any accumulated impairment losses.

Depreciation

Items of property, plant and equipment are depreciated from the month they are available-for-use up to the month of disposal. Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods of significant items of property, plant and equipment are as follows:

	Years
Buildings	20
Office equipment and motor vehicles	5
Fixtures and fittings	10

Derecognition

The carrying amount of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use of the gain or loss arising from the derecognition (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the income statement.

38.1 Composition: Bank

	Land and buildings LKR 000	Office equipment LKR 000	Furniture and fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2018 LKR 000**	Total 31.12.2017 LKR 000
Cost at beginning	479,185	2,043,681	924,934	261,082	**3,708,882**	3,151,128
Acquisitions	199,679	285,860	86,895	98,595	**671,029**	605,297
Less: Transferred to investment property	9,879	–	–	–	**9,879**	–
Less: Disposals	–	13,826	2,512	4,863	**21,201**	47,543
Cost as at 31 December	668,985	2,315,715	1,009,317	354,814	**4,348,831**	3,708,882
Accumulated depreciation at beginning	233,374	1,380,606	591,587	230,065	**2,435,632**	2,223,271
Depreciation for the year	12,246	219,055	66,102	15,852	**313,255**	259,548
Less: Accumulated depreciation on disposals	–	13,511	2,057	4,863	**20,431**	47,187
Accumulated depreciation as at 31 December	245,620	1,586,150	655,632	241,054	**2,728,456**	2,435,632
Carrying amount as at 31 December	423,365	729,565	353,685	113,760	**1,620,375**	1,273,250

38.1.2 List of freehold lands and buildings

As at 31 December 2018	Buildings Sq. Ft.	Extent of land Perches*	Cost LKR 000	Accumulated depreciation LKR 000	Carrying amount LKR 000
73/5, Galle Road, Colombo 3	57,200	104.45	85,518	77,162	8,356
5, Deva Veediya, Kandy	4,600	12.54	16,195	7,583	8,612
73, W A D Ramanayake Mawatha, Colombo 2	21,400	45.00	197,268	135,882	61,386
No. 454, Main Street, Negombo	19,087	29.00	170,325	24,993	145,332
No. 77, Colombo Road, Kurunegala**		30.00	199,679	–	199,679
			668,985	245,620	423,365

**1 perch - 25.2929 m2; 1Sq.ft = 0.0929 m2*

***cost includes stamp duty*

38.1.3 Market value of properties

	LKR Mn	Date of valuation
73/5, Galle Road, Colombo 3	1,509	31.12.2017
5, Deva Veediya, Kandy	125	31.12.2017
73, W A D Ramanayake Mawatha, Colombo 2	705	31.12.2017
No. 454, Main Street, Negombo	275	18.05.2018
No. 77, Colombo Road, Kurunegala – purchased during the year	192	29.01.2018

Valued by the independent qualified valuers Mr A A M Fathihu – Former Government Chief Valuer and Mr J S M I B Karunatilaka, Associate Member of the Institute of Valuers of Sri Lanka.

38.1.4 Fully depreciated property, plant and equipment – Bank

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows:

	BANK	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Buildings	**199,702**	79,312
Office equipment	**1,205,302**	1,007,584
Furniture and fittings	**344,280**	267,954
Motor vehicles	**215,328**	199,691
	1,964,612	1,554,541

	Land and buildings LKR 000	Office equipment LKR 000	Furniture and fittings LKR 000	Motor vehicles LKR 000	**Total 31.12.2018 LKR 000**	Total 31.12.2017 LKR 000
38.2 Composition – Group						
Cost at beginning	710,062	2,092,417	938,573	312,409	**4,053,461**	3,486,510
Acquisitions	222,203	286,633	86,932	98,595	**694,363**	615,312
Less: Transferred to investment property	9,879	–	–	–	**9,879**	–
Less: Disposals	–	13,825	2,512	4,863	**21,200**	48,361
Cost as at 31 December	922,386	2,365,225	1,022,993	406,141	**4,716,745**	4,053,461
Accumulated depreciation at beginning	388,075	1,416,751	609,380	268,094	**2,682,300**	2,443,891
Depreciation for the year	23,006	224,384	66,731	21,851	**335,972**	286,424
Less: Accumulated depreciation on disposals	–	13,511	2,057	4,863	**20,431**	48,015
Accumulated depreciation as at 31 December	411,081	1,627,624	674,054	285,082	**2,997,841**	2,682,300
Carrying amount as at 31 December	511,305	737,601	348,939	121,059	**1,718,904**	1,371,161

39 Intangible assets →

Accounting Policy →

Intangible assets – Computer application software

All software licenses used by the Bank, not constituting an integral part of related hardware are included in the statement of financial position under the category intangible assets and carried at cost less cumulative amortisation and any impairment losses.

The initial acquisition cost comprises licence fee paid at the inception, import duties, non-refundable taxes and levies, cost of customising the software to meet the specific requirements of the Bank and other directly attributable expenditure in preparing the asset for its intended use.

The initial cost is enhanced by subsequent expenditure incurred by further customisation to meet ancillary transaction processing and reporting requirements tailor-made for the use of the Bank constituting an improvement to the software.

The cost is amortised, using the straight-line method, at the rate of 20% per annum commencing from the date the application software is available for use. The amortised amount is based on the best estimate of its useful life, such that the cost is amortised fully at the end of the useful life during which the Bank has legal right of use. The amortisation cost is recognised as an expense.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Software (Note 39.1)	**642,829**	369,777	**645,395**	374,104
Software under development (Note 39.2)	**26,005**	128,307	**40,893**	128,307
Total	**668,834**	498,084	**686,288**	502,411

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
39.1 Software				
Cost at beginning	**1,300,058**	1,024,450	**1,307,859**	1,031,330
Acquisitions	**255,050**	275,608	**255,091**	276,529
Transferred from work-in-progress	**167,091**	–	**167,091**	–
Cost as at 31 December	**1,722,199**	1,300,058	**1,730,041**	1,307,859
Accumulated amortisation at beginning	**930,282**	820,708	**933,755**	822,948
Amortisation for the year	**149,088**	109,573	**150,891**	110,807
Accumulated amortisation as at 31 December	**1,079,370**	930,281	**1,084,646**	933,755
Carrying amount as at 31 December	**642,829**	369,777	**645,395**	374,104
39.2 Software under development				
As at beginning	**128,307**	–	**128,307**	–
Addition to work-in-progress	**64,789**	128,307	**79,677**	128,307
Transfers/adjustments	**(167,091)**	–	**(167,091)**	–
As at 31 December	**26,005**	128,307	**40,893**	128,307

40 Goodwill on consolidation →

Accounting Policy →

Goodwill arises on the acquisition of subsidiaries, when the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree exceed the amount of the identifiable assets and liabilities acquired. If the amount of the identifiable assets and liabilities acquired is greater, the difference is recognised immediately in the income statement. Goodwill arises on the acquisition of interests in joint venture and associate when the cost of investment exceeds Bank's share of the net fair value of the associate's or joint venture's identifiable assets and liabilities.

As at	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
DFCC Vardhana Bank PLC	**146,603**	146,603
Lanka Industrial Estates Limited	**9,623**	9,623
	156,226	156,226

In accordance with the provisions of part VIII of the Companies Act, DFCC Vardhana Bank PLC (DVB) has been amalgamated with DFCC Bank PLC with effect from 1 October 2015. The amalgamation between two entities is considered as a common control transaction, as DFCC Bank continues to control the operations of DVB after amalgamation. Thus the results of amalgamation of two entities are economically the same before and after the amalgamation as the entity will have identical net assets. Therefore DFCC will continue to record carrying values including the remaining goodwill that resulted from the original acquisition of DVB in the consolidated financial status.

41 Government Grant Receivable/Deferred Income – CBSL SWAP →

Government grants are recognised initially as deferred income at fair value, when there is a reasonable assurance that they will be received and Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis in the period in which the expenses/(losses) are recognised.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
41.1 Government grant – Receivable				
Fair value at beginning	**642,583**	861,915	**642,583**	861,915
Change in fair value on termination/renewal of contract	**(701,573)**	(133,055)	**(701,573)**	(133,055)
Change in fair value during the year (Note 13)	**58,990**	(86,277)	**58,990**	(86,277)
Fair value at 31 December	**–**	642,583	**–**	642,583
41.2 Government grant – Deferred income				
Fair value at beginning	**654,583**	701,665	**654,583**	701,665
Change in fair value on termination/renewal of contract	**(701,573)**	(133,055)	**(701,573)**	(133,055)
Change in fair value during the year	**58,990**	(86,277)	**58,990**	(86,277)
Foreign exchange (loss)/gain on revaluation	**(12,000)**	172,250	**(12,000)**	172,250
Amortisation of deferred income on Government grant – CBSL Swap (Note 15)	**46,990**	85,973	**46,990**	85,973
Fair value at 31 December	**–**	654,583	**–**	654,583

DFCC Bank PLC in October 2013 raised USD 100 Mn by Issue of Notes abroad. The proceeds of this note issue are to be deployed predominantly in LKR denominated monetary assets. In order to hedge the resulting net open foreign currency liability position, DFCC Bank PLC has entered in to a annually renewable currency SWAP arrangement with Central Bank of Sri Lanka (CBSL) for 75% of the US Dollar (USD) denominated liability. Accordingly this contract was renewed in November 2017.

The currency SWAP arrangement, pursuant to Government policy for the principal amount only is designed to reimburse DFCC Bank by CBSL for any exchange loss incurred and conversely for DFCC Bank to pay CBSL any exchange gain arising from depreciation of LKR vis-a-vis USD or appreciation of LKR vis-a-vis USD respectively.

Although USD denominated notes are repayable at the end of five years, the currency SWAP arrangement contract is renewed annually up to the date of repayment of the notes so as to exchange cash flow arising from movement in USD/LKR spot exchange rate that occurs at the time of renewal of the annual contract.

The currency SWAP arrangement with CBSL provides for SWAP of LKR to USD at the end of the contract at the same spot rate as the initial SWAP of USD to LKR at the commencement of the annual contract. (i.e. CBSL SWAP arrangement amounts to a full discount to USD/LKR spot rate at the end of the contract).

The hedging instrument for currency swap is deemed to be a derivative asset recognised at the fair value at the inception of the contract. The fair value of this derivative asset is measured by reference to forward exchange quotes for USD purchase contracts by commercial banks, who are the normal market participants. Thus the fair value gain at the inception of the contract is the full amount of the forward premium quote at the end of one year.

The subsequent change in fair value is recognised in the income statement.

CBSL normally does not enter in to forward exchange contracts with market participants providing 100% discount to the USD/LKR spot rate at the time of the maturity of the contract. Thus this arrangement has features of both derivative instrument and Government grant through the agency of CBSL.

The initial gain by reference to forward price of an equivalent forward exchange dollar purchase contract is recognised as a Government grant and deferred income.

The deferred income is amortised on a systematic basis over the period in which the Bank recognises the fall in value of derivative which the grant is intended to compensate.

DFCC Bank PLC repaid Notes Issue abroad amounting to USD 100 million in October 2018. Accordingly, currency SWAP arrangement with Central Bank of Sri Lanka was matured in October 2018.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

42 Deferred tax asset/liability →

Deferred tax liability (Note 42.1)	–	1,194,027	**90,402**	1,232,478
Deferred tax asset (Note 42.2)	**491,523**	–	**492,678**	3,160
Net total	**491,523**	1,194,027	**402,276**	1,229,318

42.1 Deferred tax liability

Balance at beginning	**1,269,468**	991,492	**1,307,919**	1,013,742
Recognised in income statement	**(175,254)**	87,393	**(121,172)**	103,594
Recognised in other comprehensive income	**(167,185)**	190,583	**(167,185)**	190,583
	927,029	1,269,468	**1,019,562**	1,307,919
Offset against deferred tax asset	**(927,029)**	(75,441)	**(929,160)**	(75,441)
Balance as at 31 December	–	1,194,027	**90,402**	1,232,478

42.2 Deferred tax asset

Balance at beginning	**75,441**	139,830	**78,601**	140,458
Adjustment on initial application of SLFRS 9	**1,004,053**	–	**1,004,053**	–
Recognised in income statement	**135,874**	10,973	**136,074**	14,048
Recognised in other comprehensive income	**203,184**	(75,362)	**203,110**	(75,905)
	1,418,552	75,441	**1,421,838**	78,601
Offset against the deferred tax liability	**(927,029)**	(75,441)	**(929,160)**	(75,441)
Balance as at 31 December	**491,523**	–	**492,678**	3,160

42.3 Recognised deferred tax assets and liabilities

Assets				
Property, equipment and software	–	–	**(1,227)**	(898)
Gratuity liability and actuarial losses on defined benefit plans	**97,477**	75,441	**101,990**	79,499
Fair value changes of FVOCI/AFS financial assets	**193,970**	–	**193,970**	–
Expected credit loss	**1,127,105**	–	**1,127,105**	–
	1,418,552	75,441	**1,421,838**	78,601
Liabilities				
Property, equipment and software	**186,883**	176,168	**251,204**	200,418
Finance leases	**716,748**	902,717	**716,748**	902,717
Fair value changes of FVOCI/AFS financial assets	–	190,583	–	190,583
Cross currency swap	**23,398**	–	**23,398**	–
Undistributed profits of the group	–	–	**28,212**	14,201
	927,029	1,269,468	**1,019,562**	1,307,919

With the adoption of SLFRS 9 the Bank has recognised deferred tax asset arising from impairment losses from loans and receivables and debt instruments which are not deducted from current tax computation.

The deferred tax asset relating to day one adjustment have been recognised against the retained earnings in the statement of changes in equity as at 1 January 2018.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

42.4 Unrecognised deferred tax assets →

Accumulated tax losses				
DFCC Consulting (Pvt) Limited – Subsidiary	–	–	–	5,956
Synapsys Limited – Subsidiary	–	–	**8,791**	6,972
	–	–	**8,791**	12,928

43 Other assets →

Refundable deposits and advances	**551,684**	370,300	**553,452**	372,070
Debtors	**1,038,863**	805,204	**1,084,599**	834,334
Clearing account balances	**1,840,512**	1,600,238	**1,840,512**	1,600,238
Receivable from pension fund	**143,217**	181,820	**143,217**	181,820
	3,574,276	2,957,562	**3,621,780**	2,988,462

44 Due to banks →

Balances with foreign banks	**803,188**	1,067,474	**803,188**	1,067,474
Borrowing – local banks	**4,947,133**	8,573,261	**4,947,133**	8,573,261
Securities sold under repurchase (Repo) agreements	**3,696,143**	–	**3,696,143**	–
	9,446,464	9,640,735	**9,446,464**	9,640,735

45 Financial liabilities at amortised cost – Due to depositors →

Total amount due to depositors	**242,237,596**	193,307,534	**241,914,870**	192,920,147

45.1 Analysis

45.1.1 By product

Demand deposits (current accounts)	**4,340,818**	4,468,869	**4,340,528**	4,468,192
Savings deposits	**45,840,477**	36,660,313	**45,826,819**	36,657,366
Fixed deposits	**188,938,547**	151,284,299	**188,629,769**	150,900,536
Certificate of deposits	**553,593**	477,711	**553,593**	477,711
Other deposits	**2,564,161**	416,342	**2,564,161**	416,342
	242,237,596	193,307,534	**241,914,870**	192,920,147

45.1.2 By currency

Sri Lanka Rupee	**180,708,645**	151,552,198	**180,397,137**	151,172,107
United States Dollar (USD)	**58,332,363**	37,950,742	**58,321,145**	37,943,446
Great Britain Pound (GBP)	**1,082,211**	1,044,429	**1,082,211**	1,044,429
Others	**2,114,377**	2,760,165	**2,114,377**	2,760,165
	242,237,596	193,307,534	**241,914,870**	192,920,147

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

46 Financial liabilities at amortised cost – Due to other borrowers →

	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Repayable in foreign currency				
Borrowing sourced from				
Multilateral institutions	**3,081,358**	3,281,998	**3,081,358**	3,281,998
Bilateral institutions	**18,292,688**	11,266,708	**18,292,688**	11,266,708
	21,374,046	14,548,706	**21,374,046**	14,548,706
Repayable in rupees				
Borrowing sourced from				
Multilateral institutions	**18,809,537**	19,395,507	**18,809,537**	19,395,507
Bilateral institutions	**1,250,544**	1,369,093	**1,250,544**	1,369,093
Central Bank of Sri Lanka – secured refinance loans (Note 46.1)	**130,355**	199,625	**130,355**	199,625
Securities sold under repurchase (Repo) agreements	**5,849,245**	5,806,660	**5,824,197**	5,777,943
	26,039,681	26,770,885	**26,014,633**	26,742,168
Total	**47,413,727**	41,319,591	**47,388,679**	41,290,874

46.1 Assets pledged as security

Nature	**Amount 31.12.2018 LKR 000**
Assignment in terms of Section 88 A of the Monetary Law of Loans refinanced by Central Bank	**130,355**

47 Debt securities issued →

Year of Issuance	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK/GROUP 31.12.2018 LKR 000	BANK/GROUP 31.12.2017 LKR 000
Issued by Bank							
i. Debenture issue (LKR)							
– Listed	3,000,000	9.10	5 years	10 Jun. 2015	10 Jun. 2020	**3,142,542**	3,136,708
	5,315,450	10.63	3 years	18 Mar. 2016	18 Mar. 2019	**5,755,899**	5,747,779
ii. Notes issue (USD)	15,360,000	9.63	5 years	31 Oct. 2013	31 Oct. 2018	–	15,559,280
	23,675,450					**8,898,441**	24,443,767
Due within one year						**5,755,899**	15,559,280
Due after one year						**3,142,542**	8,884,487
						8,898,441	24,443,767

Carrying values are the discounted amounts of principal and interest.

47.1 Details of debt securities issued

Debenture category	Interest payable frequency	Applicable interest rate %	Interest rate of comparative Government securities (Gross) p.a. %	Balance as at 31.12.2018 LKR 000	Market price Highest	Market price Lowest	Market price Last traded	Yield last traded %
Fixed rate								
2015-2020	Annually	9.10	9.62	**3,142,542**	N/T	N/T	N/T	N/A
2016-2019	Annually	10.63	9.29	**5,755,899**	N/T	N/T	N/T	N/A

N/T – Not traded

Other Ratios	31.12.2018	31.12.2017
Debt to equity ratio	**1.88**	1.77
Interest cover	**0.89**	0.99
Liquid asset ratio (%)	**23.9**	26.8

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
48 Retirement benefit obligation →				
Defined benefit – unfunded pension (Note 48.1)	**60,573**	61,147	**60,573**	61,147
– unfunded end of service gratuity (Note 48.2)	**348,131**	269,431	**372,742**	291,563
	408,704	330,578	**433,315**	352,710

As at	BANK/GROUP 2018 LKR 000	BANK/GROUP 2017 LKR 000
48.1 Unfunded pension liability		
Balance at beginning	**61,147**	61,728
Interest on obligation	**5,736**	5,794
Benefits paid	**(6,995)**	(6,995)
Actuarial experience loss	**685**	620
Present value of defined benefit pension obligations	**60,573**	61,147

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

48.2 Unfunded end of service gratuity

Balance at beginning	**269,431**	220,956	**291,563**	244,812
Liability transferred	–	2,414	–	–
Current service cost	**41,274**	35,041	**45,857**	41,507
Interest on obligation	**26,943**	22,096	**28,694**	23,877
Benefits paid	**(22,427)**	(20,363)	**(23,264)**	(24,652)
Actuarial experience loss	**32,910**	9,287	**29,892**	6,019
Present value of defined benefit pension obligations	**348,131**	269,431	**372,742**	291,563

As at	BANK/GROUP 2018 LKR 000	BANK/GROUP 2017 LKR 000

48.3 Funded pension liability/(asset)

Present value of defined benefit pension obligations (Note 48.3.1)	**2,503,310**	2,372,248
Fair value of pension assets (Note 48.3.2)	**(2,646,527)**	(2,554,068)
Defined benefit liability/(asset)	**(143,217)**	(181,820)

As per LKAS 19 – "Employee Benefits" if a plan is in surplus, then the amount recognised as an asset in the Statement of Financial Position is limited to the "asset ceiling". The asset ceiling is the present value of any economic benefits available to the entity in the form of a refund or a reduction in future contributions. By analysing all the future economic benefits available to the DFCC Pension Fund, the independent actuary Mr Piyal S Goonetilleke of Priyal S Goonetilleke & Associate has estimated the asset ceiling as at 31 December 2018 to be LKR 255.5 Mn in his report dated 23 January 2019.

As at	BANK/GROUP 2018 LKR 000	BANK/GROUP 2017 LKR 000

48.3.1 Movement in defined pension obligation

Present value of defined benefit pension obligations at the beginning	**2,372,248**	2,280,943
Current service cost	**51,282**	60,496
Interest on obligation	**237,225**	228,094
Benefits paid	**(166,793)**	(197,770)
Actuarial experience loss	**9,348**	485
Present value of defined benefit pension obligations	**2,503,310**	2,372,248

48.3.2 Movement in pension assets

Pension assets at the beginning	**2,554,068**	2,446,306
Expected return on pension assets	**228,190**	233,917
Employer's contribution	–	28,823
Benefits paid	**(166,793)**	(197,770)
Actuarial experience gain	**31,062**	42,792
Pension assets	**2,646,527**	2,554,068

As at	BANK/GROUP 2018 LKR 000	BANK/GROUP 2017 LKR 000
48.3.3 Plan assets consist of the following		
Debentures	**195,563**	119,184
Government bonds	**–**	231,899
Fixed deposits	**2,483,417**	2,211,589
Others	**(32,453)**	(8,604)
	2,646,527	2,554,068

As at	Unfunded pension liability* 31.12.2018 LKR 000	Unfunded end of service gratuity* 31.12.2018 LKR 000	Funded pension liability* 31.12.2018 LKR 000
48.3.4 The expected benefit payout in the future years to the defined benefit obligation – Bank			
Within next 12 months	**6,995**	**33,705**	**180,170**
Between 2 and 5 years	**27,980**	**163,118**	**892,902**
Beyond 5 years	**34,975**	**421,486**	**1,508,426**

** Based on expected benefits payout in next 10 years*

48.3.5 Unfunded pension liability

This relates to pension liability of an ex-employee, not funded through the DFCC Bank PLC Pension Fund. The liability covers the pension benefit to retiree and survivors.

48.3.6 Actuarial valuation

Actuarial valuation was carried out by Mr Piyal S Goonetilleke, Fellow of the Society of Actuaries USA of Piyal S Goonetilleke & Associates, on 31 December 2018.

48.3.7 Actuarial valuation method

Projected unit credit method was used to allocate the actuarial present value of the projected benefits earned by employees to date of valuation.

As at	31 December 2018		31 December 2017	
	Pension benefit (%)	**End of service gratuity (%)**	Pension benefit (%)	End of service gratuity (%)
48.3.8 Principal actuarial Assumptions				
Discount rate per annum				
Pre-retirement	**10**	**10**	10	10
Post-retirement	**10**	**Not applicable**	10	Not applicable
Future salary increases per annum	**10.5**	**10.5**	10.5	10.5
Expected rate of return on pension assets	**10**	**–**	10	–
Actual rate of return on pension assets	**11.2**	**–**	16.2	–
Mortality	**UP 1984 mortality table**	**RP-2000 mortality table**	UP 1984 mortality table	RP-2000 mortality table
Retirement age	**55 years**	**55 years**	55 years	55 years
Normal form of payment:	**lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)**	**lump sum**	lump sum commuted pension payment followed by reduced pension for 10 years (25% reduction) (for new entrants recovery period is 15 years)	lump sum
Turnover rate –				
Age				
20	**10.0**	**10.0**	10.0	10.0
25	**10.0**	**10.0**	10.0	10.0
30	**10.0**	**10.0**	10.0	10.0
35	**7.5**	**7.5**	7.5	7.5
40	**5.0**	**5.0**	5.0	5.0
45	**2.5**	**2.5**	2.5	2.5
50/55	**1.0**	**1.0**	1.0	1.0

The principal actuarial assumptions in the previous year has not changed. The discount rate is the yield rate on 31 December 2018 with a term equalling the estimated period for which all benefit payments will continue. This period is approximately 22.3 years for pension and 10.6 years for end of service gratuity. The differences in the discount rates for pension and end of service gratuity reflect the differences in the estimated period for benefit payments will continue.

48.3.9 Principal actuarial assumptions – Group

The subsidiaries have used discount rates ranging 10% – 11% and the salary increment rate ranging 5% – 7.01%.

The differences in the rate of future annual salary increases reflect the remaining working life of participants for each plan.

48.3.10 Sensitivity of assumptions used in the actuarial valuation

The Following table demonstrates the sensitivity to a reasonably possible change in the key assumptions used with all other variables held constant in the employment benefit liability measurement. The effect in the income statement and the statement of financial position with the assumed changes in the discount rates and salary increment rate is given below:

	Effect on income statement increase/(decrease) LKR 000	Effect on defined benefit obligation increase/(decrease) LKR 000
Funded pension liability		
Discount rate		
1%	200,887	(200,887)
-1%	(233,885)	233,885
Salary increment rate		
1%	(43,468)	43,468
-1%	41,216	(41,216)
Unfunded pension liability		
Discount rate		
1%	3,823	(3,823)
-1%	(4,326)	4,326
Unfunded end of service gratuity*		
Discount Rate		
1%	35,286	(35,286)
-1%	(41,428)	41,428
Salary increment rate		
1%	(39,893)	39,893
-1%	34,706	(34,706)

** Salary increment not applicable for ex-employees.*

48.3.11 Historical information

As at	31.12.2017 LKR 000	31.12.2016 LKR 000	31.12.2015 LKR 000	31.03.2015 LKR 000	31.03.2014 LKR 000
Present value of the defined benefit obligation	2,372,248	2,280,943	2,296,454	2,141,648	1,866,434
Fair value of plan assets	(2,554,068)	(2,446,306)	(2,237,646)	(2,139,052)	(2,027,664)
(Surplus)/deficit in the plan	(181,820)	(165,363)	58,808	2,596	(161,230)

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

49 Other liabilities

Accruals	**946,959**	416,079	**957,447**	420,742
Prior year's dividends	**48,970**	47,318	**48,970**	47,318
Security deposit for leases	**200**	4,065	**76,959**	81,544
Prepaid loan and lease rentals	**49,836**	56,836	**85,473**	108,980
Provisions for undrawn commitments (Note 49.1)	**197,581**	–	**197,581**	–
Account payables	**2,766,168**	3,086,110	**2,846,986**	3,120,922
Other provisions (Note 49.2)	**449,007**	525,412	**449,007**	525,412
	4,458,721	4,135,820	**4,662,423**	4,304,918

49.1 Provisions for undrawn commitments

This Provisions relates to impairment for undrawn commitments and off-balance sheet facilities computed using the relevant credit conversion factors. The impairment relating to Day one adjustment has been reported under retained earnings as at 1 January 2018.

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

49.2 Other provisions

Balance at beginning	**525,412**	468,364	**525,412**	468,364
Provisions for the financial year	**449,007**	525,412	**449,007**	525,412
Provisions used during the year	**(479,955)**	(452,256)	**(479,955)**	(452,256)
Provisions reversed during the year	**(45,457)**	(16,108)	**(45,457)**	(16,108)
Balance as at 31 December	**449,007**	525,412	**449,007**	525,412

	Face value LKR 000	Interest rate %	Repayment terms	Issue date	Maturity date	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000

50 Subordinated term debt

Listed debentures

Issued by Bank	6,043,140	12.75	7 years	09-Nov-2016	09-Nov-2023	**6,132,187**	6,129,480	**6,132,187**	6,129,480
	956,860	12.15	5 years	09-Nov-2016	09-Nov-2021	**970,618**	970,023	**970,618**	970,023
	4,086,530	13.00	7 years	29-Mar-2018	29-Mar-2025	**4,470,024**	–	**4,470,024**	–
	2,913,470	12.60	5 years	29-Mar-2018	29-Mar-2023	**3,178,651**	–	**3,178,651**	–
Transferred on amalgamation	2,000,000	9.4	5 years	10-Jun-2015	10-Jun-2020	**2,103,872**	2,103,367	**2,103,872**	2,103,367
	16,000,000					**16,855,352**	9,202,870	**16,855,352**	9,202,870
Due after one year	–	–	–	–	–	**16,855,352**	9,202,870	**16,855,352**	9,202,870

50.1 Details of subordinated term debt

Debenture category	Interest rate frequency	Applicable interest rate %	Interest rate of comparative Government Securities (Gross) p.a. %	**Balance as at 31.12.2018 LKR 000**	Market price Highest	Market price Lowest	Market price Last traded	Yield last traded %
Fixed rate								
2015-2020	Annually	9.40	10.75	**2,103,872**	94.54	94.54	94.54	13.5
2016-2021	Annually	12.15	10.85	**970,618**	N/T	N/T	N/T	N/A
2016-2023	Annually	12.75	11.20	**6,132,187**	100.5	100	100	12.71
2018-2025	Annually	13.00	11.40	**4,470,024**	N/T	N/T	N/T	N/A
2018-2023	Annually	12.60	11.18	**3,178,651**	100.05	100.05	100.05	12.58
				16,855,352				

N/T – Not traded

Debt equity ratio, interest cover and liquid asset ratio is given in Note 47.1

As at	BANK/GROUP **31.12.2018 LKR 000**	BANK/GROUP 31.12.2017 LKR 000
51 Stated capital →		
Balance as at 31 December (Number of shares – 265,097,688)	**4,715,814**	4,715,814

52 Statutory reserves →

Reserve fund

	BANK **31.12.2018 LKR 000**	BANK 31.12.2017 LKR 000	GROUP **31.12.2018 LKR 000**	GROUP 31.12.2017 LKR 000
Balance at beginning	**2,224,275**	2,004,275	**2,224,275**	2,004,275
Transfers	**134,000**	220,000	**134,000**	220,000
Balance as at 31 December	**2,358,275**	2,224,275	**2,358,275**	2,224,275

Five percent (5%) of profit after tax is transferred to the reserve fund as per Direction issued by Central Bank of Sri Lanka under Section 76 (j) (1) of the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No. 33 of 1995.

53 Retained earnings →

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
Balance at beginning	**13,858,152**	10,800,251	**17,359,513**	14,231,009
Adjustment on initial application of SLFRS 9, net of tax	**2,017,938**	–	**1,189,617**	–
Restated balance	**15,876,090**	10,800,251	**18,549,130**	14,231,009
Profit for the year	**2,768,179**	4,414,964	**3,011,018**	4,362,407
Other comprehensive (expense)/income net of tax	**(2,666)**	34,999	**(2,766)**	40,681
Transfers	**(134,000)**	(220,000)	**(134,000)**	(220,000)
Dividend	**(1,325,489)**	(1,192,940)	**(1,325,489)**	(1,192,940)
Forfeiture of unclaimed dividends	**5,073**	20,878	**5,073**	20,878
Disposal of equity investments	**75**	–	**75**	–
Change in holding through joint venture	–	–	**4,109**	117,478
Balance as at 31 December	**17,187,262**	13,858,152	**20,107,150**	17,359,513

This represents cumulative net earnings, inclusive of final dividend approved amounting to LKR 928 Mn. The balance is retained and reinvested in the business of the Bank.

54 Other reserves →

As at	BANK 31.12.2018 LKR 000	BANK 31.12.2017 LKR 000	GROUP 31.12.2018 LKR 000	GROUP 31.12.2017 LKR 000
General reserve	**13,779,839**	13,779,839	**13,779,839**	13,779,839
Fair value reserve	**5,745,025**	13,298,686	**4,293,847**	11,032,483
Hedging reserve	**60,168**	–	**60,168**	–
Exchange equalisation reserve	–	–	**82,835**	13,061
	19,585,032	27,078,525	**18,216,689**	24,825,383

55 Contingent liabilities and commitments →

Accounting Policy →

Commitments and contingencies

Contingent liabilities, which include guarantees are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the Financial Statements but are disclosed unless the probability of settlement is remote.

Financial guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

As discussed in Note 49 with the adoption of SLFRS 9 from 1 January 2019 impairment losses have been computed against undrawn facilities and guarantees using the relevant credit conversion factors.

As at	BANK		GROUP	
	31.12.2018 LKR 000	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000

55.1 Contingent liabilities and commitments

Guarantees issued to –				
Banks in respect of indebtedness of customers of the Bank	**112,091**	135,464	**112,091**	135,464
Companies in respect of indebtedness of customers of the Bank	**9,595,123**	9,297,340	**9,595,123**	9,297,340
Principal collector of customs (duty guarantees)	**356,374**	276,587	**356,374**	276,587
Shipping guarantees	**2,180,336**	2,939,459	**2,180,336**	2,939,459
Documentary credit	**12,520,899**	15,098,107	**12,520,899**	15,098,107
Bills for collection	**3,810,321**	2,305,466	**3,810,321**	2,305,466
Performance bonds	**3,893,464**	3,922,424	**3,893,464**	3,922,424
Forward exchange contracts	**36,956,995**	38,118,013	**36,956,995**	38,118,013
Commitments in ordinary course of business – Commitments for unutilised credit facilities	**66,860,600**	62,852,575	**66,860,600**	62,852,575
Capital expenditure approved by the Board of Directors				
Contracted	**219,598**	288,635	**219,598**	288,635
Not contracted	**637,867**	337,254	**637,867**	337,254
	137,143,668	135,571,324	**137,143,668**	135,571,324

As at	Bank/Group **31.12.2018 LKR 000**

55.1.1 Movement in impairment during the year

Balance at beginning	**174,385**
Charge to income statement	**23,196**
Balance on 31 December	**197,581**

55.2 Litigation against the Bank

55.2.1 A client has filed action against five defendants including the Bank in the District Court of Kurunegala, claiming that a property mortgaged by him to the Bank had been unlawfully transferred to a third party under the *parate* process to be set aside, and also claiming LKR 6 Mn as damages from the Bank. The Bank is defending the case before the District Court.

55.2.2 There are four cases filed in the District Court of Kandy and one case filed in the District Court of Negombo and another case in the District Court of Moratuwa, where third parties are claiming ownership of properties acquired by the Bank under recovery action. The Bank is defending the cases before the respective District Courts.

55.2.3 There is one case filed in the District Court of Bandarawela, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the case before the respective District Court.

55.2.4 There is one case filed in the District Court of Theldeniya, where a third party is claiming ownership of a property mortgaged to the Bank. The Bank is defending the case before the District Court of Theldeniya.

55.2.5 A client has filed a case in the District Court of Matara claiming damages from the Bank stating as the loan was not disbursed in lump sum but on that instalment based on the client's progress, his business went into decline and he suffered losses. The Bank is defending the case before the District Court of Matara.

55.2.6 The Bank has appealed to the High Court to set aside an award made in favour of an ex-employee by the Labour Tribunal.

55.2.7 Case filed in the Labour Tribunal by one ex-employee of the Bank, claiming compensation from the Bank.

55.2.8 Case filed in the Labour Tribunal of Galle, by an ex-employee of the Bank, claiming compensation and reinstatement by the Bank.

No material losses are anticipated as a result of the aforesaid actions.

55.3 Tax assessments against the Bank

The income tax assessment received by the Bank for the Year of Assessment 2010/11, which was determined by the Commissioner General of Inland Revenue amounting to LKR 760 Mn has been appealed to the Tax Appeal Commission for their determination.

The Bank is of the view that the above assessments will not have any significant impact on the Financial Statements.

56 Related party transactions →

56.1 The Group's related parties include associate, subsidiaries, trust established by the Bank for post-employment retirement plan, joint venture, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled, jointly controlled or significantly influenced for which significant voting power is held by Key Management Personnel or their close family members.

56.2 Parent and ultimate controlling party

The Bank does not have an identifiable parent of its own.

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
56.3 Transactions with subsidiaries		
56.3.1 Statement of Financial Position – Bank		
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**313,631**	380,431
Financial liabilities at amortised cost – Due to other borrowers	**25,054**	28,058
	338,685	408,489
Contingent liabilities and commitments	**150**	54

For the year ended 31 December	**2018 LKR 000**	2017 LKR 000
56.3.2 Income Statement – Bank		
Interest income	**353**	23
Interest expenses	**38,541**	45,710
Fee and commission income	**54**	33
Net other operating income	**71,883**	51,879
Other operating expenses net of reimbursements	**99,906**	106,067
56.3.3 Other transactions – Bank		
Payments made for purchase of computer software	**38,432**	43,782

As at	31.12.2018 LKR 000	31.12.2017 LKR 000

56.4 Transactions with joint venture

56.4.1 Statement of Financial Position – Bank

Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	**108,708**	127,522
	108,708	127,522
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**159**	442
	159	442

For the year ended 31 December	2018 LKR 000	2017 LKR 000

56.4.2 Income statement – Bank

Interest income	**15,763**	18,258
Fee and commission income	**5**	1
Net other operating income	**33,220**	33,220
Other operating expenses	**9,841**	–

As at	31.12.2018 LKR 000	31.12.2017 LKR 000

56.5 Transactions with associate

56.5.1 Statement of Financial Position – Bank

Liabilities		
Financial liabilities at amortised cost – Due to depositors	**25**	306
	25	306

For the year ended 31 December	2018 LKR 000	2017 LKR 000

56.5.2 Income Statement – Bank

Fee and commission income	**17**	15
Net other operating income	**27,036**	6,777

As at	31.12.2018 LKR 000	31.12.2017 LKR 000

56.6 Transaction with entities in which Directors of the Bank have significant influence

56.6.1 Statement of Financial Position – Bank

Assets		
Financial assets at amortised cost – Loans to and receivables from other customers	–	63,803
	–	63,803
Liabilities		
Financial liabilities at amortised cost – Due to depositors	**45,743**	1,158
Debt securities issued	**118,239**	118,239
	163,982	119,397

For the year ended 31 December	2018 LKR 000	2017 LKR 000

56.6.2 Income Statement – Bank

Interest income	**12,389**	250
Interest expenses	**13,653**	10,248
Fee and commission income	**2,166**	973
Other operating expenses	**417**	30

56.7 Transactions with Key Management Personnel

56.7.1 Key Management Personnel

Key Management Personnel are the Board of Directors of the Bank including Chief Executive, Deputy Chief Executive, Executive Vice President Strategic Planning and Subsidiaries, Chief Risk Officer, Chief Financial Officer, Chief Operating Officer, and Senior Vice President Treasury and Resource Mobilisation for the purpose of Sri Lanka Accounting Standard – LKAS 24 on “Related Party Disclosures”.

	BANK		GROUP	
For the year ended 31 December	2018 LKR 000	2017 LKR 000	2018 LKR 000	2017 LKR 000

56.7.2 Compensation of Directors and other Key Management Personnel

Number of persons	**16**	14	**18**	16
Short-term employment benefits	**153,304**	139,434	**169,857**	155,950
Post-employment benefits – Pension	**1,757**	1,931	**1,757**	1,931
– Others	**17,837**	17,528	**18,292**	17,983
	172,898	158,893	**189,906**	175,864

As at	31.12.2018		31.12.2017	
	Number of KMPs	LKR 000	Number of KMPs	LKR 000

56.7.3 Other transactions with Key Management Personnel and their close family members

56.7.3.1 Statement of Financial Position – Bank

Assets				
Financial assets at amortised cost – Loans to and receivables from other customers	**15**	**26,920**	4	22,994
Liabilities				
Financial liabilities at amortised cost – Due to depositors	**25**	**301,585**	18	270,569
Financial liabilities at amortised cost – Due to other borrowers	–	–	1	32,489
Debt securities issued	**1**	**2,168**	1	2,168
		303,753		305,226

For the year ended 31 December	2018 LKR 000	2017 LKR 000

56.7.3.2 Income Statement – Bank

Interest income	**1,770**	1,265
Interest expenses	**31,011**	30,575
Fee and commission income	**37**	5

56.7.4 Transactions with DFCC Bank Pension Fund – Trust

DFCC Bank Pension Fund constituted as a trust was established by the DFCC Bank to discharge defined benefit pension liability of eligible employees of the Bank.

As at	31.12.2018 LKR 000	31.12.2017 LKR 000
Contribution prepaid as at beginning	**181,820**	165,363
Contribution due for the financial year recognised as expense in income statement	**(60,317)**	(54,673)
Recognition of actuarial gains in the other comprehensive income	**21,714**	42,307
Contribution paid by the Bank	–	28,823
Contribution prepaid (Note 48.3)	**143,217**	181,820

56.8 Transactions with Government of Sri Lanka (GOSL) and its related entities

Entities related to the Government of Sri Lanka (GOSL) by virtue of their aggregate shareholdings has the power to participate in the financial and operating policy decision of the Bank and by extension to participate in the financial and operating policy decisions of the Bank. However, in fact this power was not exercised.

Paragraph 25 of Sri Lanka Accounting Standard – LKAS 24 "Related Party Disclosure" has exempted DFCC Bank from the normally applicable disclosure requirements on transactions with GOSL – related entities. In making use of this exemption the Board has determined that the limited disclosure required under paragraph 26 of LKAS 24 is only required to be made for transaction that are individually significant because of their size although these transactions were undertaken on normal market terms in the ordinary course of business and there was no requirement to disclose the transactions to regulatory or supervisory authorities or require shareholder approval.

56.8.1 Individually significant transactions included in the Statement of Financial Position

As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000
56.8.1.1 Statement of Financial Position – Bank		
Assets		
Balances with Central Bank of Sri Lanka	**11,841,814**	10,557,688
Placements with banks	**425,089**	100,060
Financial assets measured at fair value through profit or loss/ financial assets held for trading	**–**	279,094
Financial assets at amortised cost – Loans to and receivables from banks	**12,898,332**	10,956,289
Financial assets at amortised cost – Loans to and receivables from other customers	**9,582,437**	7,130,529
Financial assets at amortised cost – Debt and other instruments/held to maturity	**18,524,971**	18,376,228
Financial assets measured at fair value through other comprehensive income/ financial assets available for sale	**44,908,983**	37,746,039
Government grant receivable	**–**	642,582
	98,181,626	85,788,509
Liabilities		
Due to Banks	**5,233,952**	7,315,012
Financial liabilities at amortised cost – Due to depositors	**2,393,850**	3,952,692
Financial liabilities at amortised cost – Due to other borrowers	**23,290,043**	23,351,882
Debt securities issued	**2,154,010**	2,138,927
Government grant deferred income	**–**	654,582
Subordinated term debt	**5,439,044**	3,528,506
	38,510,899	40,941,601
Commitments		
Undrawn credit facilities	**7,633,207**	8,740,754

For the year ended 31 December	2018 LKR 000	2017 LKR 000
56.8.1.2 Income Statement – Bank		
Interest income	**7,396,060**	6,418,084
Interest expenses	**3,144,112**	3,156,669
Fee and commission income	**1,174**	2,889
Net (loss)/gain from trading	**(8,740)**	2,231
Other income – net	**364**	–

There are no other transactions that are collectively significant with Government-related entities.

56.9 Disclosure requirement under Section 9.3.2 (a) and 9.3.2 (b) of the CSE Listing Rules

As per rule No. 9.3.2 (a) the Bank does not have any non-recurrent related party transactions carried out during the financial year under review with a value exceeding 10% of the equity or 5% of the total assets whichever is lower, as per the Audited Financial Statements of the Bank.

As per rule No. 9.3.2 (b) the Bank does not have any recurrent related party transactions carried out during the financial year under review with value exceeding 10% of the gross revenue/income, as per the latest Audited Financial Statements of the Bank".

56.10 Pricing policy and terms for transactions with related parties

Bank enters into transactions with related parties in the ordinary course of business on terms similar to comparable transactions with an unrelated comparable counterparty with the exception of accommodation granted to Key Management Personnel under approved schemes uniformly applicable to all or specific categories of employees. The terms include pricing for loans, deposits and services, collateral obtained for loans where appropriate.

57 Business segment information →

Business segment results include items directly attributable to a business segment as well as those that can be allocated on a reasonable basis. Unallocated items include corporate assets, head office expenses and tax assets and liabilities.

For the year ended 31 December 2018	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Group							
Revenue							
Interest income	35,750,403	2,397,790	–	43,946	–	(42,243)	38,149,896
Net fees and commission income	2,012,562	–	–	–	–	(119)	2,012,443
Net (loss)/gain from trading	360,897	–	(727,554)	–	–	–	(366,657)
Net fair value gains/(losses) from financial instruments at fair value through profit or loss	2,650,664	–	–	–	–	–	2,650,664
Net gains from derecognition of financial assets	–	–	19,114	–	–	–	19,114
Net other operating income	(3,972,843)	–	662,841	583,892		(290,863)	(3,016,974)
Total income	36,801,683	2,397,790	(45,599)	627,838	–	(333,225)	39,448,486
Percentage*	93	5	–	2	1	(1)	100
Expense							
Segment losses	936,505	119,726	–	–	–	–	1,056,231
Depreciation	–	–	–	47,588	–	–	47,588
Other operating and interest expense	28,835,080	1,928,550	–	311,703	–	(201,207)	30,874,126
	29,771,585	2,048,276	–	359,291	–	(201,207)	31,977,945
Result	7,030,098	349,514	(45,599)	268,547	–	(132,018)	7,470,541
Unallocated expenses							1,642,287
Value added tax, nation building tax and debt repayment levy on financial services							1,459,070
							4,369,185
Share of profits of associate and joint venture							307,218
Profit before tax							4,676,403
Income tax expense							1,606,176
Profit for the year							3,070,227
Other comprehensive expenses net of tax							(2,841,520)
Total comprehensive income							228,707
Total comprehensive income – non-controlling interests							59,352
Profit for the equity holders of the Bank							169,355
Assets	286,377,759	18,312,071	36,253,445	1,033,043	33,330,558	(533,427)	374,773,449
Percentage*	76	5	11	–	8	–	100
Investments in associate and joint venture							1,988,562
							376,762,011
Liabilities	257,739,983	16,480,864	–	382,571	56,868,564	(366,122)	331,105,859
Capital expenditure – additions	–	–	–	303,746	1,093,170	–	1,396,916

* *Net of eliminations.*

For the year ended 31 December 2017	Banking LKR 000	Finance leasing LKR 000	Investing in equity LKR 000	Other LKR 000	Unallocated LKR 000	Eliminations LKR 000	Total LKR 000
Group							
Revenue							
Interest income	30,912,425	2,074,165	–	54,654	–	(46,608)	32,994,636
Net fees and commission income	1,591,336			607			1,591,943
Net gain/(loss) from trading	361,963						361,963
Net fair value gain/(losses) from financial instruments at fair value through profit or loss	(404,586)						(404,586)
Net gains from derecognition of financial assets	–		1,558				1,558
Net other operating income	(633,942)	–	2,038,693	497,772		(460,946)	1,441,577
Total income	31,827,196	2,074,165	2,040,251	553,033	–	(507,554)	35,987,091
Percentage*	88	6	5	2	–	(1)	100
Expense							
Segment losses	1,121,003	32,598	22,811	3,850		(9,896)	1,170,366
Depreciation	–	–	–	41,836			41,836
Other operating and interest expense	24,782,926	1,591,444	–	326,677		(231,054)	26,470,493
	25,903,929	1,624,042	22,811	372,363		(240,950)	27,682,695
Result	5,923,267	450,123	2,017,440	180,670		(266,604)	8,304,396
Unallocated expenses							1,139,267
Value added tax and Nation Building Tax							1,458,749
							5,706,380
Share of profits of associate and joint venture							185,030
Profit before tax							5,891,410
Income tax expense							(1,457,653)
Profit for the year							4,433,757
Other Comprehensive Income net of tax							(1,032,435)
Total comprehensive income							3,401,322
Total comprehensive income – non-controlling interests							71,572
Profit for the equity holders of the Bank							3,329,750
Assets	269,505,984	16,493,374	19,201,495	915,651	27,271,249	(603,868)	332,783,885
Percentage*	81	5	6	–	8	–	100
Investments in associate and joint venture							1,683,977
							334,467,862
Liabilities	242,555,385	14,844,037	–	258,360	27,845,355	(437,132)	285,066,005
Capital expenditure – additions				176,272	880,905	–	1,057,177

* *Net of eliminations.*

57.1 Revenue and expenses attributable to the incorporated business segment f industrial estate management, information technology services and constancy services are included in the column for others.

57.2 Property and equipment depreciation attributable to an incorporated business segment is included in the relevant segment and the balance is unallocated.

57.3 Eliminations are the consolidation adjustments for intercompany transactions, dividend and dividend payable attributable to minority shareholders.

58 Comparative figures →

58.1 Reclassification of comparative figures

The following information has been reclassified with the current year's classification in order to provide a better presentation:

	Current presentation		As disclosed previously	
	Bank LKR 000	Group LKR 000	Bank LKR 000	Group LKR 000
Income Statement				
Net (loss)/gain from trading	361,963	361,963	361,647	361,647
Net gain from financial investments	–	–	2,238,166	1,945,118
Net gain from derecognition of financial assets	1,558	1,558	–	–
Net other operating income	1,404,751	1,441,577	(831,541)	(501,667)
Personnel expenses	3,141,032	3,277,316	3,166,509	3,302,793
Other expenses	2,729,123	2,776,907	2,703,646	2,751,430
Statement of Financial Position				
Retirement benefit obligation	330,578	352,710	–	–
Other liabilities	4,135,820	4,304,918	4,466,398	4,657,628

59 Events after the reporting period →

59.1 First and final dividend

The Directors have approved the payment of a first and final dividend of LKR 3.50 per share for the year ended 31 December 2018.

The Board of Directors confirms that the Bank has satisfied the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007 and has obtained the certificate from the Auditors.

59.2 Proposed rights issue

The Bank will issue 106,039,075 shares (two shares for every five shares held) each at LKR 72 per share to raise LKR 7,634,813,400 to increase the Tier 1 capital of the Bank.

The rights issue is subject to the Colombo Stock Exchange approving in principle the issue and listing of shares and obtaining shareholders approval at an Extraordinary General Meeting on a date to be advised in due course.

No other circumstances have arisen which would require disclosure or adjustment to the financial statements.

60 Fair value measurement →

60.1 Determining fair value

The determination of fair value for financial assets and financial liabilities, for which there is no observable market price, requires the use of valuation techniques as described in Note 5.3.6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The Group's accounting policy on fair value measurements is discussed in Note 5.3.6. The Group measures fair values, using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued, based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like Government Securities, interest rate and currency swaps that use mostly observable market data and require little Management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, Government Securities and simple over the counter derivatives like forward exchange contracts and interest rate swaps. Availability of observable market prices and model inputs reduces the need for Management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Management judgements and estimations are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

60.2 Valuation framework

The established control framework with respect to the measurement of fair values, includes an oversight which is independent of front office management. Treasury Middle Office has overall responsibility for independently verifying the results of trading and investment operation.

Specific controls include –

- Verification of observable pricing
- Review and approval process for new models and changes to models involving both product control and group market risk
- Calibration and back testing of models
- Stress Testing

When third party information, such as broker quotes or pricing services is used to measure fair value, the evidence so obtained to support the conclusion that such valuations meet the requirements of SLFRSs/LKASs is documented.

This includes –

- Verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument
- Several quotes obtained from randomly selected brokers for the same financial instrument and the fair value determined on this basis

Any changes to the fair value methodology is reported to the Bank's Audit Committee.

60.3 Fair value by level of the fair value hierarchy – Bank

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial assets					
Derivative assets held-for-risk management	27				
Forward foreign exchange contracts		–	**3,414,549**	–	**3,414,549**
Financial assets measured at fair value through profit or loss	28				–
Government of Sri Lanka Treasury Bonds		–	–	–	–
Equity securities – Quoted		**5,386,889**	–	–	**5,386,889**
Units in Unit Trusts – Quoted		**169,025**	–	–	**169,025**
Units in Unit Trusts – Unquoted			**522,948**	–	**522,948**
Financial assets measured at fair value through other comprehensive income	32				–
Government of Sri Lanka Treasury Bills and Bonds		**44,031,404**	–	–	**44,031,404**
Sri Lanka sovereign bonds		**876,579**	–	–	**876,579**
Quoted ordinary shares		**10,215,281**	–	–	**10,215,281**
Units in Unit Trusts – Quoted		–	–	–	–
Units in Unit Trusts – Unquoted		–	–	–	–
Unquoted shares		–	–	**189,289**	**189,289**
Government grant receivable	41	–	–	–	–
Total		**60,680,178**	3,937,497	**189,289**	**64,806,964**
Financial Liabilities					
Derivative liabilities held-for-risk management	27				
Forward foreign exchange contracts		–	**121,373**	–	**121,373**
Total		–	**121,373**	–	**121,373**

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial Assets					
Derivative assets held-for-risk management	27				
Forward foreign exchange contracts		–	66,440	–	66,440
Financial assets held for trading	28				
Government of Sri Lanka Treasury Bonds		279,094	–	–	279,094
Equity securities – Quoted		31,828	–	–	31,828
Financial assets – available for sale	32				
Government of Sri Lanka Treasury Bills and Bonds		37,746,039	–	–	37,746,039
Quoted ordinary shares		18,195,008	–	–	18,195,008
Units in Unit Trusts – Quoted		194,590	–	–	194,590
Units in Unit Trusts – Unquoted		–	644,362	–	644,362
Unquoted shares		–	–	86,055	86,055
Government grant receivable	41	–	642,583	–	642,583
Total		56,446,559	1,353,385	86,055	57,885,999
Financial liabilities					
Derivative liabilities held-for-risk management	27				
Forward foreign exchange contracts		–	367,435	–	367,435
Total		–	367,435	–	367,435

As Treasury Bills/Bonds are valued using Central Bank published rates, investments in Treasury Bills/Bonds are classified under Level 1. Other securities which are listed in Colombo Stock Exchange are also classified as Level 1 assets by referring to the quoted prices.

60.4 Fair value by level of the fair value hierarchy – Group

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial assets					
Derivative assets held-for-risk management	27				
Forward foreign exchange contracts		–	3,414,549	–	3,414,549
Financial assets measured at fair value through profit or loss	28				–
Government of Sri Lanka Treasury Bonds		–	–	–	–
Equity securities – Quoted		5,386,889	–	–	5,386,889
Units in Unit Trusts – Quoted		169,025	–	–	169,025
Units in Unit Trusts – Unquoted			522,948		522,948
Financial assets measured at fair value through other comprehensive income	32				–
Government of Sri Lanka Treasury Bills and Bonds		44,031,404	–	–	44,031,404
Sri Lanka sovereign bonds		876,579	–	–	876,579
Quoted ordinary shares		10,215,281	–	–	10,215,281
Units in Unit Trusts – Quoted		–	–	–	–
Units in Unit Trusts – Unquoted		–	–	–	–
Unquoted shares		–	–	189,289	189,289
Government grant receivable	41	–	–	–	–
Total		60,680,178	3,937,497	189,289	64,806,964
Financial liabilities					
Derivative liabilities held-for-risk management	27				
Forward foreign exchange contracts		–	121,373	–	121,373
Total		–	121,373	–	121,373

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial assets					
Derivative assets held-for-risk management	27				
Forward foreign exchange contracts		–	66,440	–	66,440
Financial assets held for trading	28				
Government of Sri Lanka Treasury Bonds		279,094	–	–	279,094
Equity securities – Quoted		31,828	–	–	31,828
Financial assets – available for sale	32				
Government of Sri Lanka Treasury Bills and Bonds		37,746,039	–	–	37,746,039
Quoted ordinary shares		18,195,008	–	–	18,195,008
Units in Unit Trusts – Quoted		194,590	–	–	194,590
Units in Unit Trusts – Unquoted		–	644,362	–	644,362
Unquoted shares		–	–	86,055	86,055
Government grant receivable	41	–	642,583	–	642,583
Total		56,446,559	1,353,385	86,055	57,885,999

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Total LKR 000
Financial liabilities					
Derivative liabilities held-for-risk management	27				
Forward foreign exchange contracts		–	367,435	–	367,435
Total		–	367,435	–	367,435

60.5 Fair value of financial instruments carried at amortised cost – Bank

The following table summarises the carrying amounts and the Bank's estimate of fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	24	–	5,039,629	–	5,039,629	5,039,629
Balances with Central Bank of Sri Lanka	25	–	11,841,814	–	11,841,814	11,841,814
Placements with banks	26	–	425,087	–	425,087	425,087
Financial assets at amortised cost – Loans to and receivables from banks	29	–	12,854,880	–	12,854,880	12,854,880
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	245,484,907	245,484,907	249,733,718
Financial assets at amortised cost – Debt and other instruments	31	16,846,671	21,147,755	–	18,994,426	22,874,088
Due from subsidiaries	36	–	–	9,505	9,505	9,505
Other assets		–	–	3,431,061	3,431,061	3,431,061
Total		16,846,671	51,309,165	248,925,473	298,081,309	306,209,782
Liabilities						
Due to banks	44	–	9,446,464	–	9,446,464	9,446,464
Financial liabilities at amortised cost – Due to depositors	45	–	–	241,998,898	241,998,898	242,237,596
Financial liabilities at amortised cost – Due to other borrowers	46	–	–	47,413,727	47,413,727	47,413,727
Debt securities issued	47	–	8,137,682	–	8,137,682	8,898,441
Other liabilities		–	–	4,211,304	4,211,304	4,211,304
Subordinated term debt	50	–	16,397,686	–	16,397,686	16,855,352
Total		–	33,981,832	293,623,929	327,605,761	329,062,884

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	24	–	4,106,225	–	4,106,225	4,106,225
Balances with Central Bank of Sri Lanka	25	–	10,557,688	–	10,557,688	10,557,688
Placements with banks	26	–	6,691,381	–	6,691,381	6,691,381
Financial assets at amortised cost – Loans to and receivables from banks	29	–	10,984,266	–	10,984,266	10,984,266
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	208,781,978	208,781,978	213,675,866
Held-to-maturity	31	22,518,347	1,498,338	–	24,016,685	23,507,632
Due from subsidiaries	36	–	–	12,083	12,083	12,083
Other assets		–	–	2,775,741	2,775,741	2,775,741
Total		22,518,347	33,837,898	211,569,802	267,926,047	272,310,882
Liabilities						
Due to banks	44	–	9,640,735	–	9,640,735	9,640,735
Due to other customers	45	–	–	193,185,964	193,185,964	193,307,534
Other borrowings	46	–	–	41,319,591	41,319,591	41,319,591
Debt securities issued	47	–	24,435,795	–	24,435,795	24,443,767
Other liabilities		–	–	4,078,984	4,078,984	4,078,984
Subordinated term debt	50	–	8,938,245	–	8,938,245	9,202,870
Total		–	43,014,775	238,584,539	281,599,314	281,993,481

60.6 Fair value of financial instruments carried at amortised cost – Group

The following table summarises the carrying amounts and the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at fair value. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market:

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	**24**	–	**5,049,823**	–	**5,049,823**	**5,049,823**
Balances with Central Bank of Sri Lanka	**25**	–	**11,841,814**	–	**11,841,814**	**11,841,814**
Placements with banks	**26**	–	**439,727**	–	**439,727**	**439,727**
Financial assets at amortised cost – Loans to and receivables from banks	**29**	–	**12,854,880**	–	**12,854,880**	**12,854,880**
Financial assets at amortised cost – Loans to and receivables from other customers	**30**	–	–	**245,484,907**	**245,484,907**	**249,733,718**
Financial assets at amortised cost – Debt and other instruments	**31**	**16,846,671**	**2,147,755**	–	**18,994,426**	**22,874,088**
Other assets		–	–	**3,478,566**	**3,478,566**	**3,478,566**
Total		**16,846,671**	**32,333,999**	**248,963,473**	**298,144,143**	**306,272,616**

As at 31 December 2018	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Liabilities						
Due to banks	**44**	–	**9,446,464**	–	**9,446,464**	**9,446,464**
Financial liabilities at amortised cost – Due to depositors	**45**	–	–	**241,676,172**	**241,676,172**	**241,914,870**
Financial liabilities at amortised cost – Due to other borrowers	**46**	–	–	**47,388,679**	**47,388,679**	**47,388,679**
Debt securities issued	**47**	–	**8,137,682**	–	**8,137,682**	**8,898,441**
Other liabilities		–	–	**4,379,370**	**4,379,370**	**4,379,370**
Subordinated term debt	**50**	–	**16,397,686**	–	**16,397,686**	**16,855,352**
Total		–	**33,981,832**	**293,444,221**	**327,426,053**	**328,883,176**

As at 31 December 2017	Notes	Level 1 LKR 000	Level 2 LKR 000	Level 3 LKR 000	Fair value LKR 000	Carrying amount LKR 000
Assets						
Cash and cash equivalents	24	–	4,120,230	–	4,120,230	4,120,230
Balances with Central Bank of Sri Lanka	25	–	10,557,688	–	10,557,688	10,557,688
Placements with banks	26	–	6,712,131	–	6,712,131	6,712,131
Financial assets at amortised cost – Loans to and receivables from banks	29	–	10,984,266	–	10,984,266	10,984,266
Financial assets at amortised cost – Loans to and receivables from other customers	30	–	–	208,781,978	208,781,978	213,675,866
Held-to-maturity	31	22,518,347	1,498,338	–	24,016,685	23,507,632
Other assets		–	–	2,804,798	2,804,798	2,804,798
Total		22,518,347	33,872,653	211,586,776	267,977,776	272,362,611
Liabilities						
Due to banks	44	–	9,640,735	–	9,640,735	9,640,735
Due to other customers	45	–	–	192,798,577	192,798,577	192,920,147
Other borrowing	46	–	–	41,290,874	41,290,874	41,290,874
Debt securities issued	47	–	24,435,795	–	24,435,795	24,443,767
Other liabilities		–	–	4,195,940	4,195,940	4,195,940
Subordinated term debt	50	–	8,938,245	–	8,938,245	9,202,870
Total		–	43,014,775	238,285,391	281,300,166	281,694,333

Given below is the basis adopted by the Bank/Group in order to establish the fair values of the financial instruments.

60.7 Cash and cash equivalents and placements with banks

Carrying amounts of cash and cash equivalents and placements with banks approximates their fair value as these balances have a remaining maturity of less than three months from the reporting date.

60.8 Financial assets at amortised cost – Loans to and receivables from banks and other customers

60.8.1 Lease rentals receivable – Bank

The estimated fair value of lease rentals receivable is the present value of future cash flows expected to be received from such finance lease facilities calculated based on current interest rates for similar type of facilities. The finance lease portfolio is at fixed interest rates and the fair value calculated on this basis as at 31 December 2018 was LKR 17,218 Mn as against a carrying value of LKR 18,312 Mn. (as at 31 December 2017 – fair value calculated on this basis was LKR 15,531 Mn as against a carrying value of LKR 16,493 Mn).

60.8.2 Other loans – Bank

Composition:

	%
Floating rate loan portfolio	58
Fixed rate loans	
– With remaining maturity less than one year	24
– Others	18
Total	100

Since the floating rate loans can be repriced monthly, quarterly and semi-annually in tandem with market rates fair value of these loans is approximately same as the carrying value. Carrying amount of fixed rate loans with a remaining maturity of less than one year approximates the fair value.

Based on the results of the fair value computed on the lease rentals receivable, it is estimated that the fair value of the other loans at fixed interest rates with maturity of more than one year is not materially different to its carrying value as at the reporting date.

60.9 Financial assets at amortised cost – debt and other instruments/held to maturity

Fair value of the fixed rate debentures are based on prices quoted in the Colombo Stock Exchange, where there is an active market for quoted debentures.

Where there is no active market, fair value of the fixed rate debentures has been determined by discounting the future cash flows by the interest rates derived with reference to Government Treasury Bond rates with adjustments to risk premiums at the time of investment.

60.10 Due to banks

Carrying value of amounts due to banks approximates their fair value as these balances have a remaining maturity of less than one year from the reporting date.

60.11 Financial Liabilities at amortised cost – due to depositors

The carrying value of deposits with a remaining maturity of less than one year approximates the fair value.

Fair values of deposits with a remaining maturity of more than one year is estimated using discounted cash flows applying current interest rates offered for deposits of similar remaining maturities.

The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the reporting date and the savings account balances are repriced frequently to match with the current market rates, therefore the demand and saving deposits carrying amounts are reasonable approximation to the fair values as at the reporting date.

60.12 Financial Liabilities at amortised cost – due to other borrowers

This consists of borrowings sourced from multilateral and bilateral institutions. 70% of these borrowing are repriced either monthly, quarterly or semi-annually and rates are revised in line with changes in market rates. Hence the carrying value of these borrowings approximates the fair value.

The others at fixed rates which relates to borrowings on credit lines are based on interest rates which are specific to each refinancing arrangement and as such there are no comparable market rates. Hence, the fair value approximates the carrying value.

60.13 Debt securities issued

Debts issued comprise the LKR debentures, which are fair valued by reference to current Government Treasury Bond rates with a risk premium.

61 Financial Risk Management →

61.1 Introduction and overview

Bank has exposure to the following key risks from financial instruments:

- → Credit risk
- → Liquidity risk
- → Operational risk
- → Market risk

This note presents information about the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing such risks.

Risk management framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. It has setup a Board Integrated Risk Management Committee (BIRMC) with three Non-Executive Directors including the Chairman, one Executive Director and Chief Risk Officer (CRO) as members. CRO represents at the BIRMC the supervision and the management of the broad risk categories including credit, liquidity, market risk, and strategic risk. As per the Board approved Charter, BIRMC assists the Board to manage these risks prudently. Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and to monitor adherence to limits. Risk management policies and systems are reviewed at least annually to reflect changes in market conditions, business strategy, products and services offered.

61.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bank's loans and advances to customers and other banks and investment in debt securities.

With the adoption of SLFRS 9 – Financial Instruments, the Bank manages credit quality using a three stage approach which is in-line with the new standard requirements as well.

Stage 1 – 12-month expected credit losses (ECL)

This is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1 financial instruments".

Stage 2 – Lifetime expected credit losses (ECL) – Not credit impaired

These are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit impaired are referred to as "Stage 2 financial instruments".

Stage 3 – Lifetime expected credit losses (ECL) – Credit impaired

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

61.2.1 Qualitative disclosures

Management of credit risk includes the following elements:

1. Formulating credit policies in consultation with business units covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities.
3. Limiting concentration of exposures to counterparties and industries.
4. Developing and maintaining Bank's risk grading models in order to categorise exposures according to the degree of risk of financial loss and to focus management on the attendant risks.
5. Independent risk assessment, monitoring, recommending and reporting by the IRMD.
6. Reviewing compliance through regular audits by internal audit.

61.2.2 Credit quality analysis and collateral held

The following table stratify the credit exposures by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to value of the collateral. the value of the collateral is based on valuation made by independent professional valuers.

	BANK		GROUP	
As at	**31.12.2018 LKR 000**	31.12.2017 LKR 000	**31.12.2018 LKR 000**	31.12.2017 LKR 000
Individually impaired				
Stage 3				
Less than 50%	**5,432,347**	4,301,986	**5,432,347**	4,301,986
51%-70%	**576,929**	658,113	**576,929**	658,113
71%-90%	**613,758**	338,217	**613,758**	338,217
More than 90%	**2,219,159**	1,141,633	**2,219,159**	1,141,633
Total	**8,842,193**	6,439,949	**8,842,193**	6,439,949
Collectively impaired				
Stage 1				
Less than 50%	**91,176,807**	78,321,143	**91,176,807**	78,321,143
51%-70%	**3,426,394**	4,544,358	**3,426,394**	4,544,358
71%-90%	**4,730,924**	5,638,907	**4,730,924**	5,638,907
More than 90%	**94,541,360**	77,897,337	**94,541,360**	77,897,337
Total	**193,875,485**	166,401,745	**193,875,485**	166,401,745
Stage 2				
Less than 50%	**15,294,181**	14,149,973	**15,294,181**	14,149,973
51%-70%	**3,252,023**	1,754,329	**3,252,023**	1,754,329
71%-90%	**1,620,537**	1,787,230	**1,620,537**	1,787,230
More than 90%	**32,157,649**	24,146,435	**32,157,649**	24,146,435
Total	**52,324,390**	41,837,967	**52,324,390**	41,837,967
Stage 3				
Less than 50%	**2,607,590**	3,288,667	**2,607,590**	3,288,667
51%-70%	**261,213**	204,407	**261,213**	204,407
71%-90%	**251,437**	349,885	**251,437**	349,885
More than 90%	**3,136,986**	2,786,951	**3,136,986**	2,786,951
Total	**6,257,226**	6,629,910	**6,257,226**	6,629,910
Carrying amount – amortised cost	**261,299,294**	221,309,571	**261,299,294**	221,309,571

61.2.3 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

Generating the term structure of PD

The Bank collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macroeconomic factors as well as in-depth analysis of the impact of certain other factors on the risk of default. For most exposures, key macroeconomic indicators include: GDP growth, benchmark interest rates, inflation, unemployment and exchange rate. Based on consideration of a variety of external actual and forecast information, the Bank formulates a "base case" view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – Financial instruments. The criteria for determining whether credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the assessment of the external rating agencies indicates a default grading of the borrower; or
- all credit facilities listed in 1.3 of Annex 1 of the directive No. 04 of 2018 issued by Central Bank of Sri Lanka on adoption of Sri Lanka Accounting Standard SLFRS 9: Financial Instruments

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using a variety of external actual and forecasted information. The Bank formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources. The base case represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables credit risk and credit losses. The economic variables used by the Bank based on the statistical significance include the followings.

Unemployment Rate Interest Rate GDP Growth Rate Inflation Rate Exchange Rate	Base case scenario along with two other scenarios has been used (Best Case and Worst Case)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD.

Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PD is discussed above under the "Generating the term structure of PD". LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, type of product and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The following table shows a reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance for credit losses and reflect the measurement basis under LKAS 39.

Financial assets at amortised cost – Loans to and receivables from banks

	2018	
	Stage 1	Total
Balance at beginning	38,363	38,363
Net remeasurement of loss allowance	5,088	5,088
Balance on 31 December	43,451	43,451

Financial assets at amortised cost – Loans to and receivables from other customers

Balance as at 1 January	2018 (SLFRS 9)				2017 (LKAS 39)		
	Stage 1	Stage 2	Stage 3	Total	Individual	Collective	Total
Balance at beginning	805,471	2,347,630	7,966,994	11,120,095	4,778,752	1,890,798	6,669,550
Transfer to Stage 1	424,482	(355,313)	(69,169)	–	–	–	–
Transfer to Stage 2	(150,485)	206,085	(55,600)	–	–	–	–
Transfer to Stage 3	(14,410)	(179,913)	194,323	–	–	–	–
Net remeasurement of loss allowance	(738,289)	(374,098)	524,057	(588,330)	724,402	405,973	1,130,375
New financial assets originated or purchased	466,051	713,728	394,479	1,574,258	–	–	–
Write-off	(6,659)	(2,161)	(696,652)	(705,472)	(136,182)	(47,531)	(183,713)
Foreign exchange and other movement	–	–	165,025	165,025	21,782	(4,289)	17,493
Balance as at 31 December	786,161	2,355,958	8,423,457	11,565,576	5,388,754	2,244,951	7,633,705

Financial assets at amortised cost debt and other instruments/held to maturity

	2018	
	Stage 1	Total
Balance at beginning	1,729	1,729
Net remeasurement of loss allowance	234	234
Balance on 31 December	1,963	1,963

61.3 Liquidity risk

61.3.1 Qualitative disclosures

Liquidity risk is the risk that the Bank will not have sufficient financial resources to meet Bank's obligations as they fall due. This risk arises from mismatches in the timing of cash flows.

Management of liquidity risk includes the following elements:

a. Taking steps to ensure, as far as possible, that the Bank will always have sufficient financial resources to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

b. The Asset and Liability Committee (ALCO) is mandated to execute liquidity management policies, procedures and practices approved by the Board of Directors, effectively.

c. Monitoring of potential liquidity requirements and availability using the maturity analysis and cash flow forecast under normal and stressed conditions using a flow approach.

d. Monitoring the Bank's liquidity through the Liquid Assets Ratio (statutory minimum is currently 20%) and Liquidity Coverage Ratios using a stock approach.

e. Effecting threshold limits relevant for liquidity management as part of the overall risk limits system of the Bank.

61.3.2 Quantitative disclosures

61.3.2.1 Regulatory Liquidity (Bank)

As at	31.12.2018	31.12.2017
Statutory liquid assets (LKR 000)	74,659,159	71,672,283
Statutory liquid assets ratio (minimum requirement 20%)		
Domestic banking unit (%)	22.2	24.3
Off-shore banking unit (%)	44.3	67.7
Liquidity coverage ratio (minimum requirement 90% in 2018 and 80% in 2017)		
All currencies (%)	113.5	108.5
Rupee only (%)	195.7	127.8

61.3.2.2 Maturity profile of the Bank

As at 31 December 2018	Up to 3 months LKR 000	3 to 12 months LKR 000	1 to 3 years LKR 000	3 to 5 years LKR 000	> 5 years LKR 000	Total LKR 000	Carrying value LKR 000
Liabilities with contractual maturity (Interest-bearing liabilities)							
Due to banks	7,321,990	2,124,948	–	–	–	9,446,938	9,446,464
Financial liabilities at amortised cost – Due to depositors	88,375,674	84,366,980	12,141,582	10,886,112	39,758,345	235,528,693	235,354,004
Financial liabilities at amortised cost – Due to other borrowers	5,042,533	7,454,562	12,854,025	11,775,945	10,290,935	47,418,000	47,413,727
Debt securities issued	5,758,994	149,100	2,997,441	–	–	8,905,535	8,898,441
Subordinated term debt	681,781	227,138	2,939,798	8,942,732	4,083,575	16,875,024	16,855,352
Total	107,180,972	94,322,728	30,932,846	31,604,789	54,132,855	318,174,190	317,967,988

As at 31 December 2018	Up to 3 months LKR 000	3 to 12 months LKR 000	1 to 3 years LKR 000	3 to 5 years LKR 000	> 5 years LKR 000	Total LKR 000	Carrying value LKR 000
Other liabilities (Non-interest bearing liabilities)							
Due to banks	–	–	–	–	–	–	–
Derivative liabilities held for risk management	114,209	–	–	–	–	114,209	121,373
Financial liabilities at amortised cost – Due to depositors	3,643,409	2,154,980	–	1,085,205	–	6,883,594	6,883,592
Retirement benefit obligation	–	–	–	–	408,704	408,704	408,704
Current tax liability	1,135,988	–	–	–	–	1,135,988	1,221,117
Deferred tax liability	829,552	–	–	–	–	829,552	–
Other liabilities	3,095,625	919,158	38,949	92,921	508,173	4,654,826	4,458,721
Total equity	–	–	–	–	38,673,473	38,673,473	43,846,383
Total	8,818,783	3,074,138	38,949	1,178,126	39,590,350	52,700,346	56,939,890
Total liabilities and equity	**115,999,755**	**97,396,866**	**30,971,795**	**32,782,915**	**93,723,205**	**370,874,536**	**374,907,878**

61.3.2.3 Maturity profile of the Group

As at 31 December 2018	Up to 3 months LKR 000	3 to 12 months LKR 000	1 to 3 years LKR 000	3 to 5 years LKR 000	> 5 years LKR 000	Total LKR 000	Carrying value LKR 000
Liabilities with Contractual Maturity (Interest-bearing liabilities)							
Due to banks	7,321,990	2,124,948	–	–	–	9,446,938	9,446,464
Financial liabilities at amortised cost – Due to depositors	88,290,174	84,158,272	12,141,582	10,886,109	39,758,345	235,234,482	235,045,575
Financial liabilities at amortised cost – Due to other borrowers	5,014,533	7,454,562	12,854,025	11,775,945	10,290,935	47,390,000	47,388,679
Debt securities issued	5,758,994	149,100	2,997,441	–	–	8,905,535	8,898,441
Subordinated term debt	681,781	227,138	2,939,798	8,942,732	4,083,575	16,875,024	16,855,352
Total	**107,067,472**	**94,114,020**	**30,932,846**	**31,604,786**	**54,132,855**	**317,851,979**	**317,634,511**
Other liabilities (Non-interest bearing liabilities)							
Due to banks	–	–	–	–	–	–	–
Derivative liabilities held for risk management	114,209	–	–	–	–	114,209	121,373
Financial liabilities at amortised cost – Due to depositors	3,637,689	2,149,975	–	1,081,629	–	6,869,293	6,869,295
Retirement benefit obligation	–	–	–	–	408,704	408,704	433,315
Current tax liability	1,135,988	–	–	–	–	1,135,988	1,294,540
Deferred tax liability	829,552	–	–	–	–	829,552	90,402
Other liabilities	3,297,841	915,524	38,949	92,921	508,173	4,853,408	4,662,423
Total equity	–	–	–	–	38,673,473	38,673,473	45,656,152
Total	9,015,279	3,065,499	38,949	1,174,550	39,590,350	52,884,627	59,127,500
Total liabilities and equity	**116,082,751**	**97,179,519**	**30,971,795**	**32,779,336**	**93,723,205**	**370,736,606**	**376,762,011**

61.4 Market risk

61.4.1 Qualitative disclosures

Market risk is the possibility of losses arising from changes in the value of a financial instrument as a result of changes in market variables, such as interest rates, equity prices, foreign exchange rates, and commodity prices which will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank' s market risk management is to manage and control market risk exposures within acceptable parameters, in order to ensure the Bank's solvency and the income growth, while optimising the return on risk.

61.4.1.1 Management of market risks

The following policy frameworks stipulate the policies and practices for management, monitoring, and reporting of market risk:

a. Market risk management framework

b. ALCO charter

c. Treasury trading guidelines and limits system

d. Treasury manual

e. Overall risk limits for market risk management

f. New product development policy

Overall authority for managing market risk is vested with the Board of Directors through the Board Integrated Risk Management Committee (BIRMC). The operational authority for managing market risk is vested with ALCO. Foreign exchange risk is managed within approved limits and segregation of reporting responsibilities of Treasury Front Office, Middle Office and Back Office.

Exposure to market risk arises from two sources viz trading portfolios from positions arising from market-making activities, and non-trading portfolios from positions arising from financial investments measured at fair value through other comprehensive income (FVOCI) and financial investments at amortised cost and from derivatives held for risk management purposes.

61.4.2 Quantitative disclosures

In the case of interest rate and foreign exchange risk the following analysis is in respect of the Bank.

61.4.2.1 Interest rate risk

61.4.2.1.1 Duration analysis as at 31 December 2018

Portfolio	Face value LKR 000	Marked-to-market value LKR 000	Duration	Interpretation of duration
Treasury Securities measured at FVOCI/LKR Bonds	44,705,512	44,032,404	1.86	Portfolio value will decline approximately by 1.86% as a result of 1% increase in the interest rates
Treasury Securities measured at FVOCI/Sovereign Bonds	914,900	876,579	2.90	Portfolio value will decline approximately by 2.90% as a result of 1% increase in the interest rates

Market risk exposure for interest rate risk in the trading portfolio as at 31 December 2018 is Nil. Market risk exposure for interest rate risk in the FVOCI Rupee portfolio as at 31 December 2018 is depicted by duration of 1.86%.

This level of interest rate risk exposure in the Rupee FVOCI portfolio can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 817.2 Mn, as at 31 December 2018.

Market risk exposure for interest rate risk in the FVOCI US Dollar portfolio as at 31 December 2018 is depicted by duration of 2.90%.

This level of interest rate risk exposure in the FVOCI US Dollar portfolio can be interpreted as a possible potential loss in the marked-to-market value amounting to LKR 25.5 Mn, as at 31 December 2018

61.4.2.1.2 Potential impact to NII due to change in market interest rates

Overall up to the 12-month time bucket, the Bank carried a net liability sensitive position. This sensitivity will vary for each time bucket up to the 12-month period where up to one month there is a net asset sensitive position. The interest rate risk exposure as at 31 December 2018 is quantified based on the assumed change in the interest rates for each time period and is given in table below:

	0 to 1 month LKR 000	Over 1 – up to 3 months LKR 000	Over 3 – up to 6 months LKR 000	Over 6 – up to 12 months LKR 000	Over 12 months LKR 000
Total interest-bearing assets	144,720,020	13,355,395	22,426,008	28,874,550	118,640,110
Total interest-bearing liabilities	92,921,335	60,544,157	52,309,575	30,436,373	81,962,748
Net rate sensitive assets (liabilities)	51,798,685	(47,188,762)	(29,883,567)	(1,561,823)	36,677,362
Assumed change in interest rates (%)	0.50	1.00	1.50	2.00	
Impact	258,993	(432,564)	(336,190)	(15,618)	
Total net impact if interest rates increase				(525,379)	
Total net impact if interest rates decline				525,379	

The Bank has assumed that the assets and liabilities are repriced at the beginning of each time bucket and has also taken into account the remaining time from the repricing date up to one year.

61.4.2.2 Foreign exchange risk in net open position (NOP)/unhedged position of Bank

The following table indicates the DFCC's exchange rate risk exposure based on its size of the NOP/unhedged positions in the foreign currency assets/liabilities. By 31 December 2018, DFCC carried a USD equivalent net open/unhedged "Oversold" position of LKR 2.196 Mn. The impact of exchange rate risk is given below:

	Amount
Net exposure – USD equivalent	(12,000)
Value of position in LKR 000	(2,196)
Exchange rate (USD/LKR) as at 31 December 2018	182.98
Possible potential loss to Bank – LKR 000	
– If Exchange rate (USD/LKR) depreciates by 1%	(22)
– If exchange rate depreciates by 10%	(220)
– If exchange rate depreciates by 15%	(329)

The estimated potential exchange loss is off set by the interest gain due to interest differential between Sri Lankan Rupee and the respective foreign currencies.

61.4.2.3 Equity price risk

Equity prices risk is part of market risk which is defined as the risk of possible losses arising from the equity market investments due to changes in the market prices of the invested shares. The Bank is exposed to equity prices risk through its investments in the equity market which has been shown in the FVOCI/AFS portfolio and the trading portfolio.

Financial Assets measured at Fair Value Through Other Comprehensive Income/Financial Assets Available for Sale portfolio

Parameter	**Position as at 31 December 2018 LKR 000**	Position as at 31 December 2017 LKR 000
Marked-to-market value of the total quoted equity portfolio	**10,215,281**	18,195,008
Value-at-risk (under 99% probability for a quarterly time horizon)	**17.80%**	20.55%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VAR over a quarterly period	**1,818,320**	3,739,074
Unrealised gains in the FVOCI/AFS equity portfolio reported in the fair value reserve	**6,061,300**	12,639,572

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical four-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by DFCC Bank. This VAR computation for the equity FVOCI/AFS portfolio considers a quarterly time horizon.

Note: DFCC Bank transferred part of the Commercial Bank voting shares to the equity trading portfolio from AFS portfolio in 2018.

Financial Assets measured at Fair Value Through Profit or Loss Portfolio

Parameter	**Position as at 31 December 2018 LKR 000**	Position as at 31 December 2017 LKR 000
Marked-to-market value of the total quoted equity portfolio	**6,078,862**	31,828
Value-at-risk (under 99% probability for a quarterly time horizon)	**22.74%**	23.40%
Maximum possible loss of value in the marked-to-market value of the portfolio as indicated by the VAR over a quarterly period	**1,382,333**	7,448
Unrealised gains in the trading equity portfolio reported in the fair value reserve	**3,593,558**	5,242

Equity price risk is quantified using the Value at Risk (VAR) approach based on the Historical Loss Method. Historical four-year portfolio returns is adopted to compute VAR as a measure of the equity prices risk exposure by the Bank. This VAR computation for the equity Trading portfolio considers a quarterly time horizon.

61.4.2.4 Market risk exposures of DFCC Group for regulatory capital assessment as at 31 December 2018

Under the standardised approach of Basel III with effect from July 2017, market risk exposures are quantified for regulatory capital purposes. The computation results as at 31 December 2018 are as follows:

	Risk-weighted assets LKR 000	**Quantified possible exposure LKR 000**
Interest rate risk	**8,975,245**	**1,065,810**
Equity price risk	**5,874,401**	**697,585**
Foreign exchange and gold risk	**53,936**	**6,405**
Total	**14,903,582**	**1,769,800**

61.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank relating to processes, personnel, technology and infrastructure, and from external factors.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness whilst avoiding control procedures that restrict initiative and creativity.

61.5.1 Qualitative disclosures

The following are included in the process of the operational risk management in the Bank.

a. Monitoring of the Key Risk Indicators (KRIs) for the departments/functions under the defined threshold limits using a traffic light system. Develop Risk and Control Self-Assessments to identify the risk exposure of all processes.
b. Operational risk incident reporting system and the independent analysis of the incidents by the IRMD, and recognise necessary improvements in the systems, processes and procedures.
c. Analyse downtime of the critical systems, attrition information, exit interview comments and complaints to identify operational risks and recommend mitigating controls. The key findings of the analysis are evaluated at the ORMC and the BIRMC meetings in an operational risk perspective.

The primary responsibility for the development and implementation of controls to address operational risk lies with IRMD whilst implementation is assigned to Senior Management within each business unit. This responsibility is supported by the development of overall standards for management of operational risk in the following areas:

a. Requirements for appropriate segregation of duties, including independent authorisation of transactions.
b. Requirements for reconciliation and monitoring of transactions.
c. Compliance with regulatory and other legal requirements.
d. Documentation of controls and procedures.
e. Requirements for periodic assessment of operational risks faced and the adequacy of controls and procedures to address the identified risks.
f. Requirements for reporting of operational losses and propose remedial action.
g. Development of contingency plans.
h. Training and professional development to establish ethics and business standards.
i Insurance covering risk due to threats arising from external and other events.

Compliance with the Bank's standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the business unit to which they relate, with summaries submitted to the Audit Committee and Senior Management.

61.6 Capital management

61.6.1 Qualitative disclosures

The Bank manages its capital at Bank and Group level considering both regulatory requirement and risk exposures. Its regulatory capital position is analysed by the BIRMC on a quarterly basis and recommendations and decisions are made accordingly. The Group capital management goals are as follows:

a. Ensure regulatory minimum capital adequacy requirements are not compromised.
b. Bank to maintain its international and local credit rating and to ensure that no downgrading occurs as a result of deterioration of risk capital of the Bank.
c. Ensure above industry average Capital Adequacy Ratio is maintained.
d. Ensure maintaining of quality capital.
e. Ensure capital impact of business decisions are properly assessed and taken into consideration during product planning and approval process.
f. Ensure capital consumption by business actions are adequately priced.

Central Bank of Sri Lanka sets and monitors regulatory capital requirement on both consolidated and solo basis. The Bank is required to comply with the provisions of the Basel III requirements in respect of regulatory capital commencing from July 2017. The Bank currently uses the standardised approach for credit risk and market risk and basic indicator approach for operational risk.

The Basel III capital regulations, which are planned to be implemented on a phased in basis by 2019 starting from mid 2017, will continue to be based on the three-mutually reinforcing Pillars introduced under Basel II, i.e., minimum capital requirement, supervisory review process and market discipline. Basel III focuses on increasing the quality and quantity of capital especially the Core Capital, through redefining the common equity capital and introducing new capital buffers such as the Capital Conservation Buffer and a Capital Surcharge on domestic systematically important banks. DFCC Bank started reporting capital computations under the Basel III requirements from mid 2017 as per the regulatory requirements.

Regulatory capital comprises Tier 1 capital and Tier 2 capital. The Bank's policy is to maintain a strong capital base so as to ensure investor, creditor, and market confidence to sustain future development of the business. DFCC Bank and its Group have complied with the minimum capital requirements imposed by the Central Bank of Sri Lanka throughout the year.

61.6.2 Key regulatory ratios – capital adequacy

Item	31.12.2018		31.12.2017	
	Bank	Group	Bank	Group
Regulatory capital (LKR 000)				
Common equity Tier 1	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Tier 1 capital	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Total capital	**47,203,364**	**47,676,859**	41,993,352	43,187,613
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio minimum requirement 2018 – 6.375% (2017 – 5.75%)	**10.766**	**10.888**	12.681	13.093
Tier 1 capital ratio minimum requirement 2018 – 7.875% (2017 – 7.25%)	**10.766**	**10.888**	12.681	13.093
Total capital ratio minimum requirement 2018 – 11.875% (2017 – 11.25%)	**16.065**	**16.168**	16.128	16.529

Basel III computation of capital ratios

Item	Amount (LKR 000)			
	31.12.2018		31.12.2017	
	Bank	Group	Bank	Group
Common equity Tier 1 (CET 1) capital after adjustments	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Common equity Tier 1 (CET 1) capital	**38,041,191**	**40,961,078**	38,035,888	41,884,674
Equity capital (stated capital)/assigned capital	**4,715,814**	**4,715,814**	4,715,814	4,715,814
Reserve fund	**2,358,275**	**2,358,275**	2,224,275	2,224,275
Published retained earnings/(accumulated retained losses)	**17,187,263**	**20,107,150**	13,858,152	17,357,048
Published accumulated other comprehensive income (OCI)	–	–	3,457,808	3,807,698
General and other disclosed reserves	**13,779,839**	**13,779,839**	13,779,839	13,779,839
Unpublished current year's profit/loss and gains reflected in OCI	–	–	–	–
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to CET 1 capital	**6,407,980**	**8,854,372**	5,018,718	7,673,243
Goodwill (net)	–	**156,226**	–	156,226
Intangible assets (net)	**668,834**	**686,288**	498,084	502,411
Others (investment in capital of banks and financial institutions)	**5,739,146**	**8,011,858**	4,520,634	7,014,606

Item	Amount (LKR 000)			
	31.12.2018		31.12.2017	
	Bank	Group	Bank	Group
Additional Tier 1 (AT1) capital after adjustments				
Additional Tier 1 (AT1) capital				
Qualifying Additional Tier 1 capital instruments	–	–	–	–
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to AT1 capital				
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
Tier 2 capital after adjustments	**15,570,153**	**15,570,153**	8,976,182	8,976,182
Tier 2 capital	**15,570,153**	**15,570,153**	8,976,182	8,976,182
Qualifying Tier 2 capital instruments	**14,417,256**	**14,417,256**	8,008,628	8,008,628
Revaluation gains	–	–	–	–
Loan Loss Provisions	**1,152,897**	**1,152,897**	967,554	967,554
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–	–	–	–
Total adjustments to Tier 2				
Investment in own shares	–	–	–	–
Others (specify)	–	–	–	–
CET1 capital	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Total Tier 1 capital	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Total capital	**47,203,364**	**47,676,859**	41,993,352	43,187,613
Total Risk Weighted Assets (RWA)				
RWAs for credit risk	**262,979,953**	**263,746,741**	237,481,831	237,671,154
RWAs for market risk	**14,903,582**	**14,903,582**	8,109,913	8,109,913
RWAs for operational risk	**15,940,116**	**16,228,641**	14,783,335	15,508,584
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**10.766**	**10.888**	12.681	13.093
of which: Capital Conservation Buffer (%)	**1.875**	**1.875**	1.25	1.25
of which: Countercyclical Buffer (%)	**N/A**	**N/A**	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	**N/A**	**N/A**	N/A	N/A
Total Tier 1 Capital Ratio (%)	**10.766**	**10.888**	12.681	13.093
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer and Surcharge on D-SIBs) (%)	**16.065**	**16.168**	16.128	16.529
of which: Capital Conservation Buffer (%)	**1.875**	**1.875**	1.25	1.25
of which: Countercyclical Buffer (%)	**N/A**	**N/A**	N/A	N/A
of which: Capital Surcharge on D-SIBs (%)	**N/A**	**N/A**	N/A	N/A

Other Disclosure Requirements Under the Prescribed Format Issued by the Central Bank of Sri Lanka for Preparation of Annual Financial Statements of Licensed Commercial Banks

Disclosure Requirements	Description	Page No.
1. Information about the Significance of Financial Instruments for Financial Position and Performance		
1.1 Statement of Financial Position		
1.1.1 Disclosures on categories of financial assets and financial liabilities.	Notes to the financial statements: Note 23 – Analysis of financial instruments by measurement basis	175 – 178
1.1.2 Other Disclosures		
i. Special disclosures about financial assets and financial liabilities designated to be measured at fair value through profit or loss, including disclosures about credit risk and market risk, changes in fair values attributable to these risks and the methods of measurement.	Not designated Principal accounting policies: Note 5.3.2.1.3.2 – Financial assets designated at fair value through profit or loss	154
	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
ii. Reclassifications of financial instruments from one category to another.	Principal accounting policies: Note 5.3.3 – Reclassification of financial assets	155
iii. Information about financial assets pledged as collateral and about financial or non-financial assets held as collateral.	Notes to the financial statements: Note 46.1 – Assets pledged as security	204
iv. Reconciliation of the allowance account for credit losses by class of financial assets.	Note the financial statements: Note 30.2 – Movement in specific and collective allowance for impairment	185 – 186
v. Information about compound financial instruments with multiple embedded derivatives.	The Bank does not have compound financial instruments with multiple embedded derivatives	
vi. Breaches of terms of loan agreements.	None	
1.2 Statement of Comprehensive Income		
1.2.1 Disclosures on items of income, expense, gains and losses.	Notes to the financial statements: Notes 9 to 21	161 – 174
1.2.2 Other Disclosures		
i. Total interest income and total interest expense for those financial instruments that are not measured at fair value through profit and loss.	Notes to the financial statements: Note 10 – Net interest income	161
ii. Fee income and expense.	Notes to the financial statements: Note 11 – Net fee and commission income	162 – 163
iii. Amount of impairment losses by class of financial assets.	Notes to the financial statements: Note 16 – Impairment for loans and other losses	166 – 169
iv. Interest income on impaired financial assets.	The Bank has discontinued the recognition of interest income on impaired financial assets as given in Note 10 – Net interest income	161
1.3 Other Disclosures	Principal accounting policies:	
1.3.1 Accounting policies for financial instruments.	Note 5.3 – Financial assets	153 – 159
1.3.2 Information on hedge accounting.	Notes to the financial statements: Note 27 – Derivates held for risk management	179 – 180
1.3.3 Information about the fair values of each class of financial asset and financial liability, along with:		
i. Comparable carrying amounts.	Notes the financial statements: Notes 60.1 to 60.4 – Fair value measurement	222 – 227
ii. Description of how fair value was determined.	Notes to the financial statements: Note 60 – Fair value measurement	222 – 223
iii. The level of inputs used in determining fair value.	Notes to the financial statements: Notes 60.1 – Determining fair value	222 – 223
iv. a. Reconciliations of movements between levels of fair value measurement hierarchy. b. Additional disclosures for financial instruments that fair value is determined using level 3 inputs.	There were no movements between level s of fair value hierarchy during the year under review	
v. Information if fair value cannot be reliably measured.	Notes to the financial statements: Notes 60.7 to 60.13	230 – 231

Disclosure Requirements	Description	Page No.
2. Information about the Nature and Extent of Risks Arising from Financial Instruments		
2.1 Qualitative Disclosures		
2.1.1 Risk exposures for each type of financial instrument.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
2.1.2 Management's objectives, policies, and processes for managing those risks.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
2.1.3 Changes from the prior period.	Notes to the financial statements: Note 58.1 – Reclassification of comparative figures	222
2.2 Quantitative Disclosures		
2.2.1 Summary of quantitative data about exposure to each risk at the reporting date.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
2.2.2 Disclosures about credit risk, liquidity risk, market risk, operational risk, interest rate risk and how these risks are managed.		
i. Credit Risk		
a. Maximum amount of exposure (before deducting the value of collateral), description of collateral, information about credit quality of financial assets that are neither past due nor impaired and information about credit quality of financial assets.	Notes to financial statements: Note 30.1.3 – By industry (Financial assets at amortised cost – Loans to and receivables from other customers)	185
b. For financial assets that are past due or impaired, disclosures on age, factors considered in determining as impaired and the description of collateral on each class of financial asset.	Notes to the financial statements: Note 61.2.2 – Credit quality analysis and collateral held Note 61.2.3 – Amounts arising from ECL	232 232 – 234
c. Information about collateral or other credit enhancements obtained or called.	Notes to the financial statements: Note 61.2.2 – Credit quality analysis and collateral held	232
d. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 61.2. – Credit risk (Financial risk management)	231
ii. Liquidity Risk		
a. A maturity analysis of financial liabilities.	Notes to the financial statements: Notes – 61.3.2.2 to 61.3.2.3 – Maturity analysis of financial liabilities	232 – 234
b. Description of approach to risk management.	Notes to the financial statements: Note 61.3 - Financial risk management	235 – 236
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 61.3 – Liquidity risk (Financial risk management)	235 – 236
iii. Market Risk		
a. A sensitivity analysis of each type of market risk to which the entity is exposed.	Notes to the financial statement: Note 61.4 – Market risk (Financial risk management)	237 – 239
b. Additional information, if the sensitivity analysis is not representative of the entity's risk exposure.	None	
c. For other disclosures, please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statement: Note 61.4 – Market risk (Financial risk management)	237 – 239
iv. Operational Risk Please refer Banking Act Direction No. 7 of 2011 on Integrated Risk Management Framework for Licensed Banks (Section H).	Notes to the financial statements: Note 61.5 – Operational risk (Financial risk management)	240
v. Equity Risk in the Banking Book		
a. Qualitative Disclosures		
• Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Notes to the financial statements: Note 61.4.2.3 – Equity price risk	238 – 239
• Discussion of important policies covering the valuation and accounting of equity holdings in the banking book.	Note 4.1, 4.2 and 4.3 – Scope of consolidation	152

Disclosure Requirements	Description	Page No.
b. Quantitative Disclosures		
● Value disclosed in the statement of financial position of investments, as well as the fair value of those investments; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.	Notes to the financial statements: Note 28 – Financial assets measured at fair value through profit or loss Note 32 – Financial assets measured at fair value through other comprehensive income	181 – 182 188 – 192
● The types and nature of investments. The cumulative realised gains/(losses) arising from sales and liquidations in the reporting period.	Notes to the financial statements: Note 12 – Net (loss)/gain from trading Note 14 – Net gains from derecognition of financial assets Note 15 – Net other operating income	163 164 165
vi. Interest Rate Risk in the Banking Book		
a. Qualitative Disclosures ● Nature of interest rate risk in the banking book (IRRBB) and key assumptions.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
b. Quantitative Disclosures ● The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).	Notes to the financial statements: Note 61 – Financial risk management Note 61.4.2.1.2 – Potential impact on NII due to change in market interest rates	231 – 240 238
2.2.3 Information on concentrations of risk.	Notes to the financial statements: Note 61 – Financial risk management	231 – 240
3. Other Disclosures		
3.1 Capital		
3.1.1 Capital Structure		
i. Qualitative Disclosures. Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of innovative, complex or hybrid capital instruments.	Notes to the financial statements: Note 61.6.2 – Key regulatory ratios – capital adequacy	241
ii. Quantitative Disclosure a.The amount of Tier 1 capital, with separate disclosure of: ● Paid-up share capital/common stock ● Reserves ● Non-controlling interests in the equity of subsidiaries ● Innovative instruments ● Other capital instruments ● Deductions from Tier 1 capital b. The total amount of Tier 2 and Tier 3 capital c. Other deductions from capital d. Total eligible capital	Notes to the financial statements: Note 61.6.2 – Key regulatory ratios – capital adequacy	241
3.1.2 Capital adequacy i. Qualitative Disclosures A summary discussion of the Bank's approach to assessing the adequacy of its capital to support current and future activities.	Notes to the financial statements: Note 61.6.1 – Qualitative disclosures (capital management)	241
ii. Quantitative Disclosures a. Capital requirements for credit risk, market risk and operational risk	Notes to the financial statements: Note 61.6 – Capital management	240 – 241
b. Total and Tier 1 capital ratio	Notes to the financial statements: Note 61.6.2 – Key regulatory ratios – capital adequacy	241

Quantitative Disclosures as per Schedule III of Banking Act Direction No. 01 of 2016, Capital Requirements under Basel III

Basel III Computation of Liquidity Coverage Ratio – All Currencies

Item	Amount (LKR 000)			
	31.12.2018		31.12.2017	
	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
Total Stock of High-Quality Liquid Assets (HQLA)	**59,051,156**	**58,436,169**	57,330,169	56,380,415
Total Adjusted Level 1A Assets	**57,763,228**	**57,763,228**	55,311,905	55,311,905
Level 1 Assets	**57,763,228**	**57,763,228**	55,311,905	55,311,905
Total Adjusted Level 2A Assets	**82,790**	**70,372**	169,650	144,203
Level 2A Assets	**82,790**	**70,372**	169,650	144,203
Total Adjusted Level 2B Assets	**1,205,138**	**602,569**	1,848,614	924,307
Level 2B Assets	**1,205,138**	**602,569**	1,848,614	924,307
Total cash outflows	**348,143,976**	**75,603,273**	297,199,823	72,429,674
Deposits	**125,793,063**	**10,717,223**	110,539,102	11,053,910
Unsecured wholesale funding	**119,467,310**	**54,249,315**	85,471,888	50,626,218
Secured funding transactions	**5,874,993**	–	3,193,156	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**93,785,071**	**7,413,196**	95,512,713	8,266,582
Additional Requirements	**3,223,539**	**3,223,539**	2,482,964	2,482,964
Total cash inflows	**35,061,571**	**24,115,047**	35,261,500	20,470,813
Maturing secured lending transactions backed by collateral	**11,407,416**	**11,335,760**	178,770	89,385
Committed facilities	**1,000,000**	–	1,000,000	–
Other inflows by counterparty which are maturing within 30 days	**18,087,434**	**9,368,362**	33,543,891	20,314,000
Operational deposits	**1,152,256**	–	470,422	–
Other cash inflows	**3,414,465**	**3,410,925**	68,417	67,428
Liquidity Coverage Ratio (%) (Stock of High-Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)* 100		**113.49**		108.51

Basel III Computation of Liquidity Coverage Ratio – LKR Only

Item	Amount (LKR 000)			
	31.12.2018		**31.12.2017**	
	Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value
Total Stock of High-Quality Liquid Assets (HQLA)	**58,114,699**	**57,499,712**	57,252,785	56,303,031
Total Adjusted Level 1A Assets	**56,826,771**	**56,826,771**	55,234,521	55,234,521
Level 1 Assets	**56,826,771**	**56,826,771**	55,234,521	55,234,521
Total Adjusted Level 2A Assets	**82,790**	**70,372**	169,650	144,203
Level 2A Assets	**82,790**	**70,372**	169,650	144,203
Total Adjusted Level 2B Assets	**1,205,138**	**602,569**	1,848,614	924,307
Level 2B Assets	**1,205,138**	**602,569**	1,848,614	924,307
Total cash outflows	**252,398,912**	**45,858,938**	223,260,953	57,527,010
Deposits	**119,663,789**	**10,151,659**	90,452,711	9,045,271
Unsecured wholesale funding	**60,195,036**	**27,801,226**	63,718,277	41,175,092
Secured funding transactions	**5,874,993**	**–**	3,193,156	–
Undrawn portion of committed (irrevocable) facilities and other contingent funding obligations	**63,555,764**	**4,796,723**	63,775,251	5,185,089
Additional requirements	**3,109,330**	**3,109,330**	2,121,558	2,121,558
Total cash inflows	**24,177,696**	**16,478,234**	25,759,051	13,486,661
Maturing secured lending transactions backed by collateral	**9,305,602**	**9,233,947**	178,770	89,385
Committed facilities	**1,000,000**	**–**	1,000,000	–
Other inflows by counterparty which are maturing within 30 days	**13,865,013**	**7,240,746**	24,578,304	13,396,288
Operational deposits	**–**	**–**	–	–
Other cash inflows	**7,081**	**3,541**	1,977	988
Liquidity Coverage Ratio (%) (Stock of High-Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days)* 100		**195.71**		127.84

Maturity of Financial Assets and Financial Liabilities

Bank as at 31 December 2018

	Up to 1 Month LKR 000	1-3 Months LKR 000	3-6 Months LKR 000	6-12 Months LKR 000	1-3 Years LKR 000	3-5 Years LKR 000	Over 5 Years LKR 000	Total* LKR 000
Financial assets								
Cash and cash equivalents	5,039,629	–	–	–	–	–	–	5,039,629
Balances with Central Bank of Sri Lanka	11,841,814	–	–	–	–	–	–	11,841,814
Placement with banks	425,089	–	–	–	–	–	–	425,089
Derivative assets held for risk management	3,407,384	–	–	–	–	–	–	3,407,384
Financial assets measured at fair value through profit or loss/Financial assets held for trading	–	–	–	–	–	–	6,017,381	6,017,381
Financial assets at amortised cost – Loans to and receivables from banks	29,796	4,437,577	15,434	–	4,391,520	4,025,560	–	12,899,887
Financial assets at amortised cost – Loans to and receivables from other customers	25,218,032	24,606,025	17,403,911	16,276,400	40,236,546	55,809,633	73,513,726	253,064,273
Financial assets at amortised cost – Debt and other instruments/ Held to maturity	1,152,235	287,028	180,123	2,454,870	15,051,018	3,756,132	–	22,881,406
Financial assets measured at fair value through other comprehensive income/ Classified as available for sale	1,319,910	748,264	9,735,552	12,237,686	7,737,500	5,443,116	11,847,739	49,069,767
Investments in subsidiaries	–	–	–	–	–	–	167,036	167,036
Investments in associate	–	–	–	–	–	–	35,270	35,270
Investments in joint venture	–	–	–	–	–	–	755,000	755,000
Other assets	2,333,581	71,739	70,656	96,772	27,308	27,308	334,238	2,961,602
Total financial assets	50,767,470	30,150,633	27,405,676	31,065,728	67,443,892	69,061,749	92,670,390	368,565,538

	Up to 1 Month LKR 000	1-3 Months LKR 000	3-6 Months LKR 000	6-12 Months LKR 000	1-3 Years LKR 000	3-5 Years LKR 000	Over 5 Years LKR 000	Total* LKR 000
Financial liabilities								
Due to banks	7,285,625	36,365	–	2,124,948	–	–	–	9,446,938
Derivative liabilities held for risk management	114,208	–	–	–	–	–	–	114,208
Financial liabilities at amortised cost – Due to depositors	33,044,484	58,974,600	55,856,377	30,665,583	12,141,582	11,971,314	39,758,345	242,412,285
Financial liabilities at amortised cost – Due to other borrowers	3,567,792	1,474,741	2,230,085	5,224,477	12,854,025	11,775,945	10,290,935	47,418,000
Debt securities issued	–	5,758,994	151,757	–	2,994,784	–	–	8,905,535
Retirement benefit obligation	–	–	–	–	–	–	408,704	408,704
Dividend payable	–	–	–	–	–	–	48,970	48,970
Other liabilities	2,751,842	343,909	345,532	573,627	38,949	92,921	458,687	4,605,467
Subordinated term debt	–	681,781	103,150	123,988	2,939,798	8,942,732	4,083,575	16,875,024
Total financial liabilities	46,763,951	67,270,390	58,686,901	38,712,623	30,969,138	32,782,912	55,049,216	330,235,131
Total net financial assets/(liabilities)	4,003,519	(37,119,757)	(31,281,225)	(7,646,895)	36,474,754	36,278,837	37,621,174	38,330,407
Contingencies								
Guarantees	16,137,388	–	–	–	–	–	–	16,137,388
Acceptance	1,916,875	2,966,377	1,060,953	215,328	–	–	–	6,159,533
Forward contracts	–	20,805,170	5,421,901	9,920,524	–	–	–	36,147,595
Cross CCY SWAP	–	–	–	113,316	696,084	–	–	809,400
Documentary credit	1,698,660	3,990,706	68,553	603,448	–	–	–	6,361,367
Bills for collection	3,810,321	–	–	–	–	–	–	3,810,321
Total Contingencies	23,563,244	27,762,253	6,551,407	10,852,616	696,084	–	–	69,425,604
Commitments								
Undrawn overdrafts	13,552,648	–	–	–	–	–	–	13,552,648
Undrawn loans	31,235,817	–	–	–	–	–	–	31,235,817
Undrawn credit card limits	2,024,246	–	–	–	–	–		2,024,246
Undrawn indirect credit facilities	19,648,916	–	–	–	–	–	–	19,648,916
Capital commitments	857,465	–	–	–	–	–		857,465
Undrawn leases	398,972	–	–	–	–	–	–	398,972
Total Commitments	67,718,064	–	–	–	–	–	–	67,718,064
Total Commitments and Contingencies	91,281,308	27,762,253	6,551,407	10,852,616	696,084	–	–	137,143,668

** Represent the aggregate of the contractual maturities based on undiscounted cash flows.*

Bank as at 31 December 2017

	Up to 1 Month LKR 000	1-3 Months LKR 000	3-6 Months LKR 000	6-12 Months LKR 000	1-3 Years LKR 000	3-5 Years LKR 000	Over 5 Years LKR 000	Total* LKR 000
Financial assets								
Cash and cash equivalents	4,106,225	–	–	–	–	–	–	4,106,225
Balances with Central Bank of Sri Lanka	10,557,688	–	–	–	–	–	–	10,557,688
Placement with banks	6,691,381	–	–	–	–	–	–	6,691,381
Derivative assets held-for-risk management	66,440	–	–	–	–	–	–	66,440
Financial assets measured at fair value through profit or loss/Financial assets held for trading	–	–	–	–	–	279,094	–	279,094
Financial assets at amortised cost – Loans to and receivables from banks	786,286	1,364,645	952,263	9,808	6,339,072	1,536,000	–	10,988,074
Financial assets at amortised cost – Loans to and receivables from other customers	20,727,415	19,308,936	13,822,894	12,881,088	34,375,820	50,212,104	59,345,388	210,673,645
Financial assets at amortised cost – Debt and other instruments/ Held to maturity	204,111	973,548	817,554	2,542,722	6,104,030	11,420,684	1,451,159	23,513,808
Financial assets measured at fair value through other comprehensive income/ Classified as available for sale	1,938,150	836,695	10,133,632	10,756,311	3,261,869	4,202,149	11,983,320	43,112,126
Investments in subsidiaries	–	–	–	–	–	–	167,036	167,036
Investments in associate	–	–	–	–	–	–	35,270	35,270
Investments in joint venture	–	–	–	–	–	–	755,000	755,000
Other assets	2,042,795	254,972	164,728	790,507	279,972	433,590	1,736,059	5,702,623
Total financial assets	47,120,491	22,738,796	25,891,071	26,980,436	50,360,763	68,083,621	75,473,232	316,648,410

	Up to 1 Month LKR 000	1-3 Months LKR 000	3-6 Months LKR 000	6-12 Months LKR 000	1-3 Years LKR 000	3-5 Years LKR 000	Over 5 Years LKR 000	Total* LKR 000
Financial liabilities								
Due to banks	68,965	45,501	2,871,692	4,659,044	2,001,746	–	–	9,646,948
Derivative liabilities held-for-risk management	367,435	–	–	–	–	–	–	367,435
Securities sold under repurchase agreements	3,193,156	1,322,489	27,022	3,397	–	–	–	4,546,064
Financial liabilities at amortised cost – Due to depositors	30,289,983	47,714,707	43,909,341	15,226,199	10,401,732	9,459,778	29,690,589	186,692,329
Financial liabilities at amortised cost – Due to other borrowers	1,103,460	57,217	980,812	2,020,105	10,157,772	10,728,555	10,211,745	35,259,666
Debt securities issued	–	430,347	388,098	15,342,972	8,306,064	–	–	24,467,481
Retirement benefit obligation	–	–	–	–	–	–	330,578	330,578
Government grant – deferred Income	–	–	–	654,583	–	–	–	654,583
Dividend payable	–	–	–	–	–	–	47,338	47,338
Other liabilities	3,892,393	3,163,947	3,115,282	2,658,511	233,646	139,804	445,424	13,649,007
Subordinated term debt	–	–	103,118	126,349	1,992,392	949,936	6,040,020	9,211,815
Total financial liabilities	38,915,392	52,734,208	51,395,365	40,691,160	33,093,352	21,278,073	46,765,694	284,873,244
Total net financial assets/(liabilities)	8,205,099	(29,995,412)	(25,504,294)	(13,710,724)	17,267,411	46,805,548	28,707,538	31,775,166
Contingencies								
Guarantees	16,571,273	–	–	–	–	–	–	16,571,273
Acceptance	1,545,458	2,559,024	1,829,954	8,233	11,520	–	–	5,954,189
Forward contracts	–	9,984,303	5,044,794	22,760,617	328,300	–	–	38,118,014
Documentary credit	2,333,711	5,788,172	662,801	359,235	–	–	–	9,143,919
Bills for collection	2,305,466	–	–	–	–	–	–	2,305,466
Total contingencies	22,755,908	18,331,499	7,537,549	23,128,085	339,820	–	–	72,092,861
Commitments								
Undrawn overdrafts	12,350,333	–	–	–	–	–	–	12,350,333
Undrawn loans	38,883,858	–	–	–	–	–	–	38,883,858
Undisbursed cash loans		–	–	–	–	–	–	–
Undrawn credit card limits	585,502	–	–	–	–	–	–	585,502
Undrawn indirect credit facilities	10,510,442	–	–	–	–	–	–	10,510,442
Capital commitments	751,422	–	–	–	–	–	–	751,422
Operating lease commitments –		–	–	–	–	–	–	–
Undrawn leases	522,440	–	–	–	–	–	–	522,440
Total commitments	63,603,997	–	–	–	–	–	–	63,603,997
Total commitments and contingencies	86,359,905	18,331,499	7,537,549	23,128,085	339,820	–	–	135,696,858

** Represent the aggregate of the contractual maturities based on undiscounted cash flows.*

Maturity Gap Analysis of Foreign Currency Denominated Financial Assets and Financial Liabilities – USD

As at 31 December 2018	Up to 1 Month USD 000	1-3 Months USD 000	3-6 Months USD 000	6-12 Months USD 000	1-3 Years USD 000	3-5 Years USD 000	Over 5 Years USD 000	Total USD 000
Total assets	35,987	50,559	22,979	809	40,906	37,776	279,435	468,451
Total liabilities	88,141	52,854	42,687	82,719	80,355	69,468	44,972	461,196
Total net financial assets/(liabilities)	(52,154)	(2,295)	(19,708)	(81,910)	(39,449)	(31,692)	234,463	7,255

As at 31 December 2017	Up to 1 Month USD 000	1-3 Months USD 000	3-6 Months USD 000	6-12 Months USD 000	1-3 Years USD 000	3-5 Years USD 000	Over 5 Years USD 000	Total USD 000
Total assets	64,483	29,634	15,313	1,980	48,855	39,970	259,724	459,959
Total liabilities	74,061	50,965	35,354	133,232	66,329	59,174	34,340	453,455
Total net financial Assets/(liabilities)	(9,578)	(21,331)	(20,041)	(131,252)	(17,474)	(19,204)	225,384	6,504

Sensitivity of Financial Assets and Financial Liabilities

Bank as at 31 December 2018

	Up to 1 Month LKR 000	1-3 Months LKR 000	3-6 Months LKR 000	6-12 Months LKR 000	1-3 Years LKR 000	3-5 Years LKR 000	Over 5 Years LKR 000	Non-interest bearing LKR 000	Total LKR 000
Financial assets									
Cash and cash equivalents	304,618	–	–	–	–	–	–	4,735,011	5,039,629
Balances with Central Bank of Sri Lanka	–	–	–	–	–	–	–	11,841,814	11,841,814
Placements with banks	425,089	–	–	–	–	–	–	–	425,089
Derivative assets held-for-risk management	–	–	–	–	–	–	–	3,407,384	3,407,384
Financial assets measured at fair value through profit or loss/Financial assets held for trading	–	–	–	–	–	–	–	6,017,381	6,017,381
Financial assets at amortised cost – Loans to and receivables from banks	29,796	4,437,577	15,434	–	4,391,520	4,025,560	–	–	12,899,887
Financial assets at amortised cost – Loans to and receivables from other customers	141,488,372	7,882,526	12,494,899	14,181,994	24,669,960	19,371,704	26,605,155	6,369,663	253,064,273
Financial assets at amortised cost – Debt and other Instruments/Held to maturity	1,152,235	287,028	180,123	2,454,870	15,051,018	3,756,132	–	–	22,881,406
Financial assets measured at fair value through other comprehensive income/ Financial assets available for sale	1,319,910	748,264	9,735,552	12,237,686	7,737,500	5,443,117	7,588,444	4,259,295	49,069,768
Investment in subsidiaries	–	–	–	–	–	–	–	167,036	167,036
Investment in associate	–	–	–	–	–	–	–	35,270	35,270
Investment in joint venture	–	–	–	–	–	–	–	755,000	755,000
Due from subsidiaries	–	–	–	–	–	–	–	9,505	9,505
Investment Property	–	–	–	–	–	–	–	9,879	9,879
Property, Plant and equipment	–	–	–	–	–	–	–	1,620,783	1,620,783
Intangible assets	–	–	–	–	–	–	–	668,834	668,834
Other assets	–	–	–	–	–	–	–	2,961,598	2,961,598
Total financial assets	144,720,020	13,355,395	22,426,008	28,874,550	51,849,998	32,596,513	34,193,599	42,858,453	370,874,536

	Up to 1 Month LKR 000	1-3 Months LKR 000	3-6 Months LKR 000	6-12 Months LKR 000	1-3 Years LKR 000	3-5 Years LKR 000	Over 5 Years LKR 000	Non-interest bearing LKR 000	Total LKR 000
Financial liabilities									
Due to banks	**7,285,625**	**36,365**	**–**	**2,124,948**	**–**	**–**	**–**	**–**	**9,446,938**
Derivative liabilities held-for-risk management	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**114,209**	**114,209**
Financial liabilities at amortised cost – Due to depositors	**82,067,918**	**52,592,276**	**49,824,583**	**22,962,960**	**26,304,650**	**1,701,676**	**74,628**	**6,883,594**	**242,412,285**
Financial liabilities at amortised cost – Due to other borrowers	**3,567,792**	**1,474,741**	**2,230,085**	**5,224,477**	**12,854,025**	**11,775,945**	**10,290,935**	**–**	**47,418,000**
Debt securities issued	**–**	**5,758,994**	**151,757**	**–**	**2,994,784**	**–**	**–**	**–**	**8,905,535**
Retirement benefit obligation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**408,704**	**408,704**
Current tax liability	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,135,988**	**1,135,988**
Deferred tax liability	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**829,552**	**829,552**
Other liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,654,828**	**4,654,828**
Subordinated term debt	**–**	**681,781**	**103,150**	**123,988**	**2,939,798**	**8,942,732**	**4,083,575**	**–**	**16,875,024**
Equity capital and reserves	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**38,673,473**	**38,673,473**
Total financial liabilities	**92,921,335**	**60,544,157**	**52,309,575**	**30,436,373**	**45,093,257**	**22,420,353**	**14,449,138**	**52,700,348**	**370,874,536**
Interest rate sensitivity gap	**51,798,685**	**(47,188,762)**	**(29,883,567)**	**(1,561,823)**	**6,756,741**	**10,176,160**	**19,744,461**	**(9,841,895)**	**–**

Bank as at 31 December 2017

	Up to 1 Month LKR 000	1-3 Months LKR 000	3-6 Months LKR 000	6-12 Months LKR 000	1-3 Years LKR 000	3-5 Years LKR 000	Over 5 Years LKR 000	Non-interest bearing LKR 000	**Total** LKR 000
Financial assets									
Cash and cash equivalents	655,327	–	–	–	–	–	–	3,450,898	4,106,225
Balances with Central Bank of Sri Lanka	–	–	–	–	–	–	–	10,557,688	10,557,688
Placements with banks	6,691,381	–	–	–	–	–	–		6,691,381
Derivative assets held-for-risk management	–	–	–	–	–	–	–	66,440	66,440
Financial assets measured at fair value through profit or loss/Financial assets held for trading	–	–	–	–	–	279,094	–	–	279,094
Financial assets at amortised cost – Loans to and receivables from banks	786,285	1,364,645	952,263	9,808	6,339,072	1,536,000	–	–	10,988,073
Financial assets at amortised cost – Loans to and receivables from other customers	118,551,359	7,678,804	8,163,974	17,702,281	22,549,741	14,456,335	19,917,642	1,653,509	210,673,645
Financial assets at amortised cost – Debt and other Instruments/Held to maturity	204,111	973,548	817,554	2,542,722	6,104,030	11,420,684	1,451,159	–	23,513,808

	Up to 1 Month LKR 000	1-3 Months LKR 000	3-6 Months LKR 000	6-12 Months LKR 000	1-3 Years LKR 000	3-5 Years LKR 000	Over 5 Years LKR 000	Non-interest bearing LKR 000	**Total** LKR 000
Financial assets measured at fair value through other comprehensive income/ Financial assets available for sale	1,938,150	836,695	10,133,632	10,756,311	3,261,869	4,202,149	11,983,320	–	43,112,126
Investment in subsidiaries	–	–	–	–	–	–	–	167,036	167,036
Investment in associate	–	–	–	–	–	–	–	35,270	35,270
Investment in joint venture	–	–	–	–	–	–	–	755,000	755,000
Due from subsidiaries	–	–	–	–	–	–	–	12,083	12,083
Investment property	–	–	–	–	–	–	–	–	–
Property, plant and equipment	–	–	–	–	–	–	–	1,273,250	1,273,250
Intangible assets	–	–	–	–	–	–	–	498,084	498,084
Government grant receivables	–	–	–	–	–	–	–	642,583	642,583
Other assets	–	–	–	–	–	–	–	5,740,852	5,740,852
Total financial assets	128,826,613	10,853,692	20,067,423	31,011,122	38,254,712	31,894,262	33,352,121	24,852,693	319,112,638
Financial liabilities									
Due to banks	64,581	45,501	2,871,692	4,659,044	2,001,746	–	–	4,384	9,646,948
Derivative liabilities held-for-risk management	–	–	–	–	–	–	–	367,435	367,435
Financial liabilities at amortised cost – Due to depositors	64,009,635	44,884,132	41,302,210	10,666,994	1,238,153	296,199	19,409,793	11,685,768	193,492,884
Financial liabilities at amortised cost – Due to other borrowers	1,533,807	57,217	1,007,834	2,394,341	11,548,027	11,678,491	13,102,955	–	41,322,672
Debt securities issued	–	–	388,098	15,171,182	8,908,201	–	–	–	24,467,481
Retirement benefit obligation	–	–	–	–	–	–	–	330,578	330,578
Current tax liability	–	–	–	–	–	–	–	485,418	485,418
Deferred tax liability	–	–	–	–	–	–	–	1,003,444	1,003,444
Government grant deferred income	–	–	–	–	–	–	–	654,583	654,583
Other liabilities	–	–	–	–	–	–	–	3,602,912	3,602,912
Subordinated term debt	–	–	–	–	2,103,367	7,108,449	–	–	9,211,816
Equity capital and reserves	–	–	–	–	–	–	–	34,526,467	34,526,467
Total financial liabilities	65,608,023	44,986,850	45,569,834	32,891,561	25,799,494	19,083,139	32,512,748	52,660,989	319,112,638
Interest rate sensitivity gap	63,218,590	(34,133,158)	(25,502,411)	(1,880,439)	12,455,218	12,811,123	839,373	(27,808,296)	–

Key regulatory ratios – capital

Item	31.12.2018		31.12.2017	
	Bank	Group	Bank	Group
Regulatory capital (LKR 000)				
Common equity Tier 1	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Tier 1 capital	**31,633,211**	**32,106,706**	33,017,170	34,211,431
Total capital	**47,203,364**	**47,676,859**	41,993,352	43,187,613
Regulatory capital ratios (%)				
Common equity Tier 1 capital ratio minimum requirement 2018 – 6.375% (2017 – 5.75%)	**10.766**	**10.888**	12.681	13.093
Tier 1 capital ratio minimum requirement 2018 – 7.875% (2017 – 7.25%)	**10.766**	**10.888**	12.681	13.093
Total capital ratio minimum requirement 2018 – 11.875% (2017 – 11.25%)	**16.065**	**16.168**	16.128	16.529

Basel III computation of capital ratios

Item	31.12.2018		31.12.2017	
	Bank LKR 000	Group LKR 000	Bank LKR 000	Group LKR 000
Common equity Tier 1 (CET 1) capital after adjustments	**31,633,211**	**32,106,706**	**33,017,170**	**34,211,431**
Common equity Tier 1 (CET 1) capital	**38,041,191**	**40,961,078**	**38,035,888**	**41,884,674**
Equity capital (stated capital)/assigned capital	**4,715,814**	**4,715,814**	**4,715,814**	**4,715,814**
Reserve fund	**2,358,275**	**2,358,275**	**2,224,275**	**2,224,275**
Published retained earnings/(accumulated retained losses)	**17,187,263**	**20,107,150**	**13,858,152**	**17,357,048**
Published accumulated Other Comprehensive Income (OCI)	–	–	**3,457,808**	**3,807,698**
General and other disclosed reserves	**13,779,839**	**13,779,839**	**13,779,839**	**13,779,839**
Unpublished current year's profit/loss and gains reflected in OCI			–	
Ordinary shares issued by consolidated banking and financial subsidiaries of the Bank and held by third parties			–	
Total adjustments to CET 1 capital	**6,407,980**	**8,854,372**	**5,018,718**	**7,673,243**
Goodwill (net)	–	**156,226**		**156,226**
Intangible assets (net)	**668,834**	**686,288**	**498,084**	**502,411**
Others (investment in capital of banks and financial institutions)	**5,739,146**	**8,011,858**	**4,520,634**	**7,014,606**
Additional Tier 1 (AT1) capital after adjustments			–	
Additional Tier 1 (AT1) capital			–	
Qualifying additional Tier 1 capital instruments			–	

Item	31.12.2018		31.12.2017	
	Bank LKR 000	Group LKR 000	Bank LKR 000	Group LKR 000
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties			–	
Total adjustments to AT1 capital			–	
Investment in own shares			–	
Others (specify)			–	
Tier 2 capital after adjustments	**15,570,153**	**15,570,153**	**8,976,182**	**8,976,182**
Tier 2 capital	**15,570,153**	**15,570,153**	**8,976,182**	**8,976,182**
Qualifying Tier 2 capital instruments	**14,417,256**	**14,417,256**	**8,008,628**	**8,008,628**
Revaluation gains	–	–		
Loan loss provisions	**1,152,897**	**1,152,897**	**967,554**	**967,554**
Instruments issued by consolidated banking and financial subsidiaries of the Bank and held by third parties	–		–	
Total Adjustments to Tier 2	–		–	
Investment in own shares	–		–	
Others (specify)	–		–	
CET1 capital	**31,633,211**	**32,106,706**	**33,017,170**	**34,211,431**
Total Tier 1 capital	**31,633,211**	**32,106,706**	**33,017,170**	**34,211,431**
Total capital	**47,203,364**	**47,676,859**	**41,993,352**	**43,187,613**
Total risk weighted assets (RWA)				
RWAs for credit risk	**262,979,953**	**263,746,741**	**237,481,831**	**237,671,154**
RWAs for market risk	**14,903,582**	**14,903,582**	**8,109,913**	**8,109,913**
RWAs for operational risk	**15,940,116**	**16,228,641**	**14,783,335**	**15,508,584**
CET1 capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	**10.766**	**10.888**	**12.681**	**13.093**
of which: capital conservation buffer (%)	**1.875**	**1.875**	**1.25**	**1.25**
of which: countercyclical buffer (%)	**N/A**	**N/A**	**N/A**	**N/A**
of which: capital surcharge on D-SIBs (%)	**N/A**	**N/A**	**N/A**	**N/A**
Total Tier 1 capital ratio (%)	**10.766**	**10.888**	**12.681**	**13.093**
Total capital ratio (including capital conservation buffer, countercyclical capital buffer and surcharge on D-SIBs) (%)	**16.065**	**16.168**	**16.128**	**16.529**
of which: capital conservation buffer (%)	**1.875**	**1.875**	**1.25**	**1.25**
of which: countercyclical buffer (%)	**N/A**	**N/A**	**N/A**	**N/A**
of which: capital surcharge on D-SIBs (%)	**N/A**	**N/A**	**N/A**	**N/A**

Credit Risk under Standardised Approach – Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	As at 31 December 2018 – Bank					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount LKR 000	Off-balance sheet amount LKR 000	On-balance sheet amount LKR 000	Off-balance sheet amount LKR 000	RWA LKR 000	RWA density(ii)
Claims on central Government and CBSL	88,936,934	548,940	88,936,934	10,979	2,717,985	3%
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–
Claims on public sector entities	6,443,394	1,480,307	298,126	740,154	1,038,280	100%
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	2,462,047	47,723,196	2,462,047	954,464	1,216,813	36%
Claims on financial institutions	13,032,475	750,000	13,032,475	375,000	7,016,336	52%
Claims on corporates	97,064,414	51,923,219	91,428,321	24,212,355	111,239,028	96%
Retail claims	38,819,978	–	29,983,983	–	25,171,608	84%
Claims secured by residential property	9,751,637	–	9,676,729	–	7,084,911	73%
Claims secured by commercial real estate	82,163,485	1,521,214	82,163,485	1,521,214	83,684,699	100%
Non-performing assets (NPAs) (i)	4,467,326	–	4,467,326	–	6,073,431	136%
Higher-risk categories	371,370	–	371,370	–	928,426	250%
Cash Items and other assets	17,513,470	13,319,084	17,305,581	3,384,010	16,808,436	81%
Total	361,026,530	117,268,960	340,126,377	31,198,176	262,979,953	

Note:

(i) (i) NPAs - As per banking act Directions on classification of loans and advances, income recognition and provisioning.

(ii) RWA density - Total RWA/exposures post CCF and CRM.

Credit Risk under Standardised Approach –
Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	As at 31 December 2018 – Group					
	Exposures before credit conversion factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA density (%)	
	On-balance sheet amount LKR 000	Off-balance sheet amount LKR 000	On-balance sheet amount LKR 000	Off-balance sheet amount LKR 000	RWA LKR 000	RWA density(ii)
Claims on central Government and CBSL	**88,936,934**	**548,940**	**88,936,934**	**10,979**	**2,717,985**	**3%**
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–
Claims on public sector entities	**6,443,394**	**1,480,307**	**298,126**	**740,154**	**1,038,279**	**100%**
Claims on official entities and multilateral development banks	–	–	–	–	–	–
Claims on banks exposures	**2,503,762**	**47,723,196**	**2,503,762**	**954,464**	**1,225,156**	**35%**
Claims on financial institutions	**13,032,475**	**750,000**	**13,032,475**	**375,000**	**7,016,336**	**52%**
Claims on corporates	**97,064,414**	**51,923,219**	**91,428,321**	**24,212,355**	**111,239,029**	**96%**
Retail claims	**38,819,978**	–	**29,983,983**	–	**25,171,609**	**84%**
Claims secured by residential property	**9,751,637**	–	**9,676,729**	–	**7,084,911**	**73%**
Claims secured by commercial real estate	**82,163,485**	**1,521,214**	**82,163,485**	**1,521,214**	**83,684,698**	**100%**
Non-performing assets (NPAs)(i)	**4,467,326**	–	**4,467,326**	–	**6,073,431**	**136%**
Higher-risk categories	**400,685**	–	**400,685**	–	**1,001,713**	**250%**
Cash items and other assets	**18,904,675**	**13,319,084**	**18,000,933**	**3,384,010**	**17,493,594**	**82%**
Total	**362,488,765**	**117,265,960**	**340,892,759**	**31,198,176**	**263,746,741**	

Note:
(i) NPAs - As per banking act directions on classification of loans and advances, income recognition and provisioning.
(ii) RWA density - Total RWA/exposures post CCF and CRM.

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	Amount (LKR 000) as at 31 December 2018 (Post CCF and CRM) – Bank							
Risk weight asset classes	0%	20%	50%	75%	100%	150%	>150%	Total credit exposures amount
Claims on central Government and Central Bank of Sri Lanka	75,357,988	13,589,925	–	–	–	–	–	88,947,912
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	1,038,280	–	–	1,038,280
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–
Claims on banks exposures	–	1,929,567	1,356,936	–	85,160	44,847	–	3,416,511
Claims on financial institutions	–	1,250,000	10,782,279	–	1,375,196	–	–	13,407,475
Claims on corporates	–	4,836,043	1,226,011	–	109,418,234	160,388	–	115,640,676
Retail claims	434,962	2,504,418	–	9,495,514	17,549,090	–	–	29,983,984
Claims secured by residential property	–	–	5,183,636	–	4,493,093	–	–	9,676,729
Claims secured by commercial real estate	–	–	–	–	83,684,699	–	–	83,684,699
Non-performing assets (NPAs)	–	–	25,519	–	1,204,077	3,237,730	–	4,467,326
Higher-risk categories	–	–	–	–	–	–	371,370	371,370
Cash items and other assets	3,856,512	30,804	–	–	16,802,275	–	–	20,689,591
Total	79,649,462	24,140,757	18,574,381	9,495,514	235,650,104	3,442,965	371,370	371,324,553

Description	Amount (LKR' 000) as at 31 December 2018 (Post CCF and CRM) – Group							
Risk Weight Asset Classes	0%	20%	50%	75%	100%	150%	>150%	Total credit exposures amount
Claims on central Government and Central Bank of Sri Lanka	75,357,988	13,589,925	–	–	–	–	–	88,947,913
Claims on foreign sovereigns and their Central Banks	–	–	–	–	–	–	–	–
Claims on public sector entities	–	–	–	–	1,038,280	–	–	1,038,280
Claims on official entities and multilateral development banks	–	–	–	–	–	–	–	–
Claims on banks exposures	–	1,971,283	1,356,936	–	85,160	44,847	–	3,458,226
Claims on financial institutions	–	1,250,000	10,782,279	–	1,375,196	–	–	13,407,475
Claims on corporates	–	4,836,043	1,226,011	–	109,418,234	160,388	–	115,640,676
Retail claims	434,962	2,504,418	–	9,495,514	17,549,090	–	–	29,983,984
Claims secured by residential property	–	–	5,183,636	–	4,493,093	–	–	9,676,729
Claims secured by commercial real estate	–	–	–	–	83,684,699	–	–	83,684,699
Non-performing assets (NPAs)	–	–	25,519	–	1,204,077	3,237,730	–	4,467,326
Higher-risk categories	–	–	–	–	–	–	400,685	400,685
Cash items and other assets	3,866,706	30,804	–	–	17,487,432	–	–	21,384,942
Total	79,659,656	24,182,473	18,574,381	9,495,514	236,335,261	3,442,965	400,685	372,090,935

Market Risk under Standardised Measurement Method

Item	31 December 2018 RWA	
	Bank LKR 000	Group LKR 000
(a) RWA for interest rate risk	1,769,800	1,769,800
General Interest Rate Risk	1,065,810	1,065,810
(i) Net long or short position	1,065,810	1,065,810
(ii) Horizontal disallowance	–	–
(iii) Vertical disallowance	–	–
(iv) Options	–	–
Specific interest rate risk	–	–
(b) RWA for equity	697,585	697,585
(i) General equity risk	419,434	419,434
(ii) Specific equity risk	278,151	278,151
(c) RWA for Foreign exchange and gold	6,405	6,405
Capital charge for market risk [(a)+(b)+(c)]* CAR	14,903,582	14,903,582

Operational risk under basic indicator approach/the standardised approach/the alternative standardised approach – Bank

Business lines	Capital charge factor %	Fixed factor	Gross income year ended 31 December 1st year LKR 000	2nd year LKR 000	3rd year LKR 000
The basic indicator approach	**15**		**13,401,828**	**13,147,262**	**11,308,687**
The standardised approach					
Corporate finance	**18**				
Trading and sales	**18**				
Payment and settlement	**18**				
Agency services	**15**				
Asset management	**12**				
Retail brokerage	**12**				
Retail banking	**12**				
Commercial banking	**15**				
The alternative standardised approach					
Corporate finance	**18**				
Trading and sales	**18**				
Payment and settlement	**18**				
Agency services	**15**				
Asset management	**12**				
Retail brokerage	**12**				
Retail banking	**12**	**0.035**			
Commercial banking	**15**	**0.035**			
Capital charges for operational risk (LKR 000)					
The basic indicator approach	**1,892,889**				
The standardised approach					
The alternative standardised approach					
Risk-weighted amount for operational risk (LKR 000)					
The basic indicator approach	**15,940,116**				
The standardised approach					
The alternative standardised approach					

Operational risk under basic indicator approach/the standardised approach/the alternative standardised approach – Group

Business lines	Capital charge factor %	Fixed factor	Gross income year ended 31 December		
			1st year LKR 000	2nd year LKR 000	3rd year LKR 000
The basic indicator approach	**15**		**13,738,681**	**13,239,350**	**11,564,991**
The standardised approach					
Corporate finance	**18**				
Trading and sales	**18**				
Payment and settlement	**18**				
Agency services	**15**				
Asset management	**12**				
Retail brokerage	**12**				
Retail banking	**12**				
Commercial banking	**15**				
The alternative standardised approach					
Corporate finance	**18**				
Trading and sales	**18**				
Payment and settlement	**18**				
Agency services	**15**				
Asset management	**12**				
Retail brokerage	**12**				
Retail banking	**12**	**0.035**			
Commercial banking	**15**	**0.035**			
Capital charges for operational risk (LKR 000)					
The basic indicator approach	**1,927,151**				
The standardised approach					
The alternative standardised approach					
Risk-weighted amount for operational risk (LKR 000)					
The basic indicator approach	**16,228,641**				
The standardised approach					
The alternative standardised approach					

Main Features of Regulatory Capital Instruments

Description of the capital instrument (Bank only)	Stated Capital	Subordinated Term-debt (2015)	Subordinated Term-debt (2016 - Type A)	Subordinated Term-debt (2016 - Type B)	Subordinated Term-debt (2018 – Type A)	Subordinated Term-debt (2018 – Type B)
Issuer	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC	DFCC Bank PLC
Unique identifier (e.g., ISIN or Bloomberg identifier for private placement)	LK0055N00000	C2306	C 2366	C-2367	C-2393	C-2394
Governing Law(s) of the instrument	Companies Act No. 07 of 2007, Colombo Stock Exchange Regulations	Securities and Exchange Commission Act No. 36 of 1987 (as amended), Colombo Stock Exchange Regulation				
Original date of issuance	May 1956 to November 2010	10 June 2015	9 November 2016	9 November 2016	26 March 2018	26 March 2018
Par value of instrument (LKR)	10.00	100.00	100.00	100.00	100.00	100.00
Perpetual or dated	Perpetual	Dated	Dated	Dated	Dated	Dated
Original maturity date, if applicable	N/A	10 June 2020	9 November 2021	9 November 2023	29 March 2023	29 March 2025
Amount recognised in regulatory capital (in LKR 000 as at the reporting date)	4,715,814	800,000	574,116	6,043,140	2,913,470	4,086,530
Accounting classification (Equity/Liability)	Equity	Liability	Liability	Liability	Liability	Liability
Issuer call subject to prior supervisory approval						
Optional call date, contingent call dates and redemption amount (LKR 000)	N/A	N/A	N/A	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A	N/A
Coupons/Dividends						
Fixed or floating dividend/coupon	Floating dividend	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
Coupon rate and any related index (%)	N/A	9.4	12.15	12.75	12.6	13
Non-cumulative or cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible	Convertible
If convertible, conversion trigger (s)	N/A	N/A	N/A	N/A	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act, Direction No. 1 of 2016	Determined by and at the sole discretion of the Monetary Board of the Central Bank of Sri Lanka, and is defined in the Banking Act, Direction No. 1 of 2016
If convertible, fully or partially	N/A	N/A	N/A	N/A	Fully	Fully
If convertible, mandatory or optional	N/A	N/A	N/A	N/A	Mandatory	Mandatory
If Convertible, conversion rate	N/A	N/A	N/A	N/A	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares	Based on the simple average of the daily Volume Weighted Average Price (VWAP) of an ordinary voting shares

N/A – Not applicable

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

Item	Amount (LKR 000) as at 31 December 2018					
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation for Differences Between Accounting and Regulatory Reporting
Assets						
Cash and cash equivalents	**5,039,629**	**5,036,121**	**5,036,121**	–	–	
Balances with Central Bank of Sri Lanka	**11,841,814**	**11,841,814**	**11,841,814**	–	–	
Placements with Banks	**425,087**	**425,000**	**425,000**	–	–	
Derivative assets held for risk management	**3,414,549**	–	–	–	–	Included under other asset in regulatory reporting
Financial assets measured at fair value through profit or loss (FVTPL)	**6,078,862**	**49,371,081**	**43,984,192**	**3,532,077**	**1,854,812**	The difference is due to the Government and equity securities held for trading which are classified as FVOCI in published Financial Statements
Financial assets designated at fair value through profit or loss	–	–	–	–	–	
Financial assets at amortised cost – Loans to and receivables from banks	**12,854,880**	–	–	–	–	Stated under held to maturity in regulatory reporting
Financial assets at amortised cost – Loans to and receivables from other customers	**249,733,718**	**252,951,772**	**235,498,057**	–	**20,900,652**	The impairment allowance for loans and advances on a collective and individual basis in accordance with SLFRS 9 – Financial Instruments. The general and specific provisions are made in a accordance with Central Bank of Sri Lanka. The difference between the balance under SLFRS and previous GAAP.
Financial assets measured at fair value through other comprehensive income	**55,313,553**	–	–	–	–	Classified into held to maturity and held for trading regulatory reporting
Financial assets at amortised cost – debt and other instruments	**22,874,088**	**39,910,074**	**39,423,515**	–	**486,559**	The difference is due to the government and equity securities held for investment purposes which are classified as FVOCI in published financial statements.
Investments in subsidiaries	**167,036**	**957,305**	**202,305**	–	**755,000**	Investments in associates and joint ventures are included in regulatory reporting in addition to those in subsidiaries
Investments in associates and joint ventures	**790,270**	–	–	–	–	Included in Investments in subsidiaries
Property, plant and equipment	**1,620,375**	**1,620,375**	**1,620,375**	–	–	
Investment properties	**9,879**	**9,879**	**9,879**	–	–	
Goodwill and intangible assets	**668,834**	**668,985**	–	–	**668,985**	
Deferred tax assets	**491,523**	–	–	–	–	
Other assets	**3,583,781**	**8,135,126**	**8,135,126**	–	–	
Total assets	**374,907,878**	**370,927,532**	**346,176,384**	**3,532,077**	**24,666,008**	

Item	Amount (LKR 000) as at 31 December 2018					
	Carrying Values as Reported in Published Financial Statements	Carrying Values under Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital	Explanation for Differences Between Accounting and Regulatory Reporting
Liabilities						
Due to Banks	**9,446,464**	–	–	–	–	Included under Other Borrowings in regulatory reporting
Derivative liabilities held for risk management	**121,373**	–	–	–	–	Included under Other Liabilities in regulatory reporting
Other financial liabilities held-for-trading	–	–	–	–	–	
Financial liabilities designated at fair value through profit or loss	–	–	–	–	–	
Financial liabilities at amortised cost-due to depositors	**242,237,596**	**233,444,804**	–	–	**233,444,804**	Interest payable on deposits are stated under Other Liabilities in regulatory reporting
Financial liabilities at amortised cost-due to borrowers	**47,413,727**	**64,801,097**	–	–	**64,801,097**	Due to banks and Debt Securities Issued are included under this heading in regulatory reporting
Debt securities issued	**8,898,441**	–	–	–	–	Included under Other Borrowings in regulatory reporting
Current tax liabilities	**1,221,117**	**1,221,117**	–	–	**1,221,117**	Taxes are computed based on different profits under each reporting method.
Other provisions	–	–	–	–	–	
Other liabilities	**4,867,425**	**16,787,039**	–	–	**16,787,039**	Interest payable on Borrowing and deposits added to the Other Liabilities in regulatory reporting
Due to subsidiaries	–	–	–	–	–	
Subordinated term debts	**16,855,352**	**16,000,000**	**14,417,256**		**1,582,744**	Regulatory reporting reports only the principal amount
Total liabilities	**331,061,495**	**332,254,057**	**14,417,256**	–	**317,836,801**	
Off-Balance sheet liabilities						
Guarantees	**12,243,925**	**12,243,925**	**12,243,925**	–	–	
Performance bonds	**3,893,464**	**3,893,464**	**3,893,464**	–	–	
Letters of credit and acceptances	**12,520,899**	**12,520,899**	**12,520,899**	–	–	
Other contingent items bills on collection and capital expenditure approved by the board	**4,667,786**	**4,667,786**	–	–	**4,667,786**	
Undrawn loan commitments	**66,860,600**	**66,860,600**	**66,860,600**	–	–	
Other Commitments (FX commitments)	**36,956,995**	**36,956,995**	**36,956,995**	–	–	
Total Off-Balance sheet liabilities	**137,143,668**	**137,143,668**	**132,475,882**	–	**4,667,786**	
Shareholders' Equity						
Equity capital (stated capital)/assigned capital	**4,715,814**	**4,715,814**	–	–	–	
of which amount eligible for CET1	–	–	–	–	–	
of which amount eligible for AT1	–	–	–	–	–	
Retained earnings	**17,187,262**	**18,067,032**	–	–	–	Due to differences which arise in profits computed in previous GAAP and SLFRSs
Accumulated other comprehensive income	**5,745,025**	–	–	–	**5,745,025**	Accumulated other comprehensive income is only applicable in published Financial Statements
Other reserves	**16,198,282**	**15,890,629**	–	–	–	Due to differences which arise in profits computed in previous GAAP and SLFRSs
Total Shareholders' Equity	**43,846,383**	**38,673,475**	–	–	**5,745,025**	

Ten Year Summary

LKR million	Based on previous GAAP			Based on LKAS 39						Based on SLFRS 9
	For the year ended 31 March						For the 9 months ended 31 December	For the year ended 31 December		
	2010	2011	2012	2013	2014	2015	2015	2016	2017	**2018**
Bank										
Operating Results										
Total income	8,843	14,191	7,652	10,433	10,481	10,394	10,036	26,754	35,942	**39,154**
Profit before income tax	2,402	7,876	2,883	3,492	3,211	3,771	1,589	4,414	5,792	**4,233**
Income tax expense	689	739	430	570	623	531	521	1,125	1,377	**1,464**
Profit after tax	1,713	7,137	2,453	2,921	2,587	3,240	1,068	3,289	4,415	**2,768**
Statement of Financial Position										
Assets										
Cash and short-term funds	10,472	11,991	3,646	7,103	4,245	2,296	9,859	13,745	21,355	**17,307**
Loans to and receivables from banks and other customers	36,681	39,344	54,982	60,668	62,575	73,933	164,920	198,085	224,660	**262,589**
Financial investments	1,999	4,032	16,277	19,298	25,609	29,909	66,861	72,461	80,374	**84,267**
Investment in associate, joint venture and subsidiary companies	5,845	3,132	4,451	4,446	6,659	6,648	823	902	957	**957**
Other assets	1419	1,427	1,841	1,645	1,853	1,826	3,688	4,919	5,761	**9,788**
Total assets	56,416	59,926	81,197	93,160	100,941	114,612	246,151	290,112	333,107	**374,908**
Liabilities										
Due to depositors	5,124	3,688	12,445	15,548	16,630	22,485	110,891	140,514	193,308	**242,238**
Due to other borrowers	33,530	32,261	36,489	41,605	45,262	46,346	87,379	97,291	84,607	**82,614**
Other liabilities	2,039	3,758	1,010	1,223	1,639	1,686	5,062	6,457	7,316	**6,210**
Equity	15,723	20,219	31,253	34,784	37,410	44,095	42,819	45,850	47,877	**43,846**
Total equity and liabilities	56,416	59,926	81,197	93,160	100,941	114,612	246,151	290,112	333,107	**374,908**
Return on equity (%)*	11.3	39.7	11.7	12.9	10.6	12.8	5.0	10.99	13.4	**7.6**
Return on total assets (%)*	3.0	12.3	3.7	3.8	3.0	3.5	1.0	1.30	1.48	**0.80**
Earnings per share (LKR)	6.48	26.95	9.25	11.02	9.76	12.22	4.03	12.41	16.65	**10.44**
Market value per share (LKR)	90.23	171.8	112.6	131.1	143.9	202.8	168.1	122.50	124.00	**93.00**
Price earnings ratio (times)	13.9	6.4	12.2	11.9	14.7	16.6	41.7	9.87	7.45	**8.91**
Earnings yield (%)	7.2	15.6	8.2	8.4	6.8	6.0	2.4	10.13	13.43	**11.23**
Dividend per share (LKR)	6.00	10.00	4.00	5.00	5.50	6.00	2.50	4.50	5.00	**3.50**
Dividend cover (times)	2.2	2.7	3.1	2.8	2.0	2.2	0.7	4.96	3.70	**2.09**
Gross dividend (LKR million)	794.3	2,649	795	1,060	1,325	1,458	1,591	663	1,193	**1,325**
Liquid assets to liabilities (as specified in the Banking Act No. 30 of 1998) (%)	214	295	52	53	77	48	22	27	27	**24**
No. of employees	427	451	466	461	477	495	1445	1,642	1,770	**1,860**

** After eliminating fair value reserve*

Corporate Information

Name of Company

DFCC Bank PLC

Legal form

A quoted public company with limited liability incorporated by DFCC Bank Act No. 35 of 1955 and with the enactment of the DFCC Bank (Repeal and Consequential Provisions) Act No. 39 of 2014, incorporated under the Companies Act No. 07 of 2007 with the name "DFCC Bank PLC" with effect from 6 January 2015. A licensed commercial bank under the Banking Act No. 30 of 1988.

Company registration number

PQ233

Credit rating

AA- (lka) credit rating from Fitch Ratings Lanka Limited.

Annual General Meeting (AGM)

The AGM will be held at the Cinnamon Lakeside Colombo, Sir Chittampalam A Gardiner Mawatha, Colombo 2, on 28 March 2019.

For any clarification on this report please write to:

The Company Secretary
DFCC Bank PLC
No. 73/5, Galle Road,
Colombo 03, Sri Lanka or
E-mail to: info@dfccbank.com

Company Secretary

Ms A Withana

Auditors

KPMG
Chartered Accountants

VAT registration number

409000088-7000

Registered office

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